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IN-COUNTRY FTZ IN POST-CONFLICT ACEH: ECONOMIC DEVELOPMENT AND ILLEGAL CIGARETTE TRADE IN SABANG-INDONESIA

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Abstract

The implementation of the Sabang Free-Trade Zone (FTZ) has implications for the increasing distribution of illegal cigarettes in the mainland areas of Aceh. It increases the burden on state financial losses, community health problems, and the workload on customs to conduct control and supervision. This present qualitative study explores the dynamics of the illegal cigarette trade in the Sabang Free-Trade Zone by conducting 12 in-depth interviews with key stakeholders. There are four important findings reflected in this study. First, the Sabang-Free Trade Zone management is highly influenced by political aspects and a lack of managerial competence. The second finding indicates a dilemmatic perspective of the conflicting parties seeing Sabang FTZ. The third finding then reveals that the quota mechanism related to the distribution of imported cigarettes has not been regulated and merely relies upon importers' requests. The latest findings also suggest that the control and supervision system at Sabang FTZ is weak. These findings are expected to serve as the foundation for policy recommendations and lessons on illegal cigarette trade in Indonesia and other post-conflict countries (direct) and free trade zones of

neighboring countries. borders like Malaysia, Thailand, Singapore, and The Philippines.

Keywords: *dilemma of economic development, FTZ, illegal cigarette trade, post-conflict Aceh, Sabang-Indonesia*

A. Introduction

Aceh, has an exceptional strategic position economically, especially for Indonesia. Aceh is positioned where the Malacca Strait and the Indian Ocean converge. This region went through a prolonged conflict that inflicted a financial loss and other harm to Indonesia and the Acehnese themselves (Baikoeni & Oishi, 2016; Schiller, 2011). Numerous factors, such as disagreements over structural politics and democracy, contribute to the dilemma (Jemadu, 2004). The factors are natural resources management (Hoeffler et al., 2016), security issues (Barter, 2013), cultural claims and heritage (Daly & Rahmayati, 2012; Miller, 2004), and post-conflict and post-tsunami reconstruction and infrastructure availability (Barron, 2008).

The conflict between the Government of Indonesia (GoI) and the *Gerakan Aceh Merdeka* or Free Aceh Movement (GAM) was instigated on December 4, 1976, marked by the establishment of the movement (Schulze, 2006). The injustice of the central government drove the demand for independence from the Republic of Indonesia to Aceh (Waizenegger & Hyndman, 2010). Aceh subsequently underwent a physical and economic development deterioration during the conflict (McCarthy, 2007). On December 26, 2004, a massive earthquake and tsunami hit Aceh. After the disaster, GoI and GAM agreed to start another round of peace talks with Aceh (Ahtisaari, 2008; Husain, Shahab, & Siadari, 2007).

Acehnese people believe GAM is a legitimate rebel organisation that would assure a bright future for post-conflict Aceh because it was the sole negotiator at the Helsinki peace negotiations in 2005 (Budiatri, 2022). The peace in Aceh was officially achieved after signing the peace agreement of the Helsinki MoU on August 15, 2005 (Morfit, 2007). In the peace agreement, several powers are granted to the Aceh local government, although this is not the first time Aceh was granted such authority (Barron & Clark, 2006). Aceh had previously been given authority such as the power to control Sabang free-port in 2000 to stop the demands for separation from GoI.

Post-reform Indonesia was marked by the fall of the New Order regime (*Orde Baru*) led by President Soeharto and the burgeoning democracy across Indonesia (Bunte & Ufen, 2009), most notably the ever-growing importance of parliamentary elections and political parties (Ufen, 2010), amidst the fierce competition for presidential leadership (Ziegenhain, 2009). To prevent Aceh and other conflict-prone regions in Indonesia from demanding independence, instrumental policies emphasizing decentralization, autonomy, and regional aspirations were implemented (Bunnell & Ann Miller, 2011; Miller, 2004), such as the establishment of local political parties (Stange & Patock, 2010). One of them was initiated during the administration of President Abdurrahman Wahid (Niksch, 2001), whereby Aceh was given greater autonomy and the authority to have a free-trade zone in Sabang, among others (Reid, 2004). The regulation of Sabang as a Free trade area and free port is thus regulated in Law No. 37/2000.

In Law number 37 of 2000, it is regulated that Sabang is designated as the Free-trade and Free-port area (Webster, 2007). It means that goods imported to and exported from Sabang are free

of tax and excise rates. Ever since 2000 onwards, this arrangement has given significant rises in the cigarettes trade. The tax-free imported cigarettes have a lower price. Thus, the illegal selling of cigarettes outside of Sabang to other customs zones intensified, particularly in the coastal regions of Banda Aceh's capital city and its neighbouring districts such as Aceh Besar.

According to the law, the Sabang Management and Development Agency (*Badan Pengelola Kawasan Sabang*, henceforth BPKS) manages the free trade zones and free ports of Sabang, particularly in terms of licensing. However, Customs has a role when it becomes a matter of oversight. If oversight is inadequate, the flow of contraband cigarettes to other regions of Aceh will inevitably expand.

The existence of Sabang FTZ is the main object of understanding the post-conflict peacebuilding dilemma in Aceh. This dilemma has attracted the interest of prior researchers to explore topics focusing on politics and economic development of post-conflict regions. Some studies highlight the need to link peacebuilding with elections in post-conflict settings (Ansori, 2012; Candelaria, 2020), democracy and post-conflict corruption (Le Billon, 2008), public administration and governance (Hillman, 2013), education policy (Shah & Lopes Cardozo, 2014), political parties (Reilly, 2013), local tradition involvement in transitional justice (Horne, 2014), local election and campaign (Akmal, Darwin, & Zalikha, 2020), generic economic dimensions and autonomy (Phelps, Bunnell, & Miller, 2011). However, bar for few notable exceptions (i.e. Aspinall, 2009; Phelps et al., 2011; Sustikarini, 2019; Wennmann & Krause, 2009), the abovementioned studies did not focus on the dynamics of economic development instruments in peacebuilding programs and post-war societies, especially in Aceh and Sabang, where FTZ arrangements were established after a conflict. To this end, the present study is expected to fill this gap by exploring the dynamics of illegal cigarette trading in post-conflict Sabang FTZ implementation.

B. Method

In-depth interviews were the primary mode of data gathering in this qualitative study. An in-depth interview aims to gain a profound grasp of a phenomenon and the causes of specific problems (Goodman, 2001). The data was collected from May to November 2018 from Sabang's BPKS officials, security officials (local police), supervisory boards of Sabang FTZ (*Dewan Kawasan Sabang*, henceforth DKS), local government representatives, community leaders, and tobacco importers. The stakeholders also include the head of the Aceh customs office, the Sabang customs officer, the income and revenue office officials, the youth and local leaders in Sabang, the province office of information and communication, and the Sabang members of parliament.

Notes from observations and field trips also supported the primary data (Phillippi & Lauderdale, 2018). The field trips were conducted twice, from the first week until the third week of November 2018. Additionally, in our reflection during the field trip, legal documents such as laws, regulations, *Qanun* (local regulation), meeting minutes, reports, and other

supporting data (if any) will be rewritten and regrouped. This is particularly important for determining keywords and defining influential themes and main patterns from the study for triangulation purposes (Jonsen & Jehn, 2009). In the process, reading transcripts repeatedly helps gain a profound understanding to find provisional conclusions and interpretations or possible relationships.

C. Result and Discussion

1. Sabang: From Ideal Political Instrument to Miss-Managed Free-Trade Zone?

Sabang FTZ was then used as a conflict resolution instrument, initiated during BJ Habibie's time as the Minister of Research and Technology in 1997 through his staff Prof. Dr Indroyono during the BPPT Research for Science and Technology Jamboree event in Gapang, Sabang Island. Finally, the Integrated Economic Development Zone (KAPET) of Sabang and Pulo Aceh was launched in 1998, strengthened by Law 37 of 2000 stipulating Sabang as an FTZ. It was expected that people would stop fighting, and thus, the disappointment and criminality could be minimized.

In the interview session, AS, the Management and Development Agency, stated:

Sabang is a model to encourage the economic growth in Aceh. The spirit is that industrialization will start from here. So if industrialization is there, people don't need to fight anymore, they won't carry weapons anymore, people will work (AS).

In 2002, economic activities in Sabang had improved along with the entry of imported goods from abroad. However, the imposition of martial law in 2003 brought the economic accomplishments back to a downturn in 2004. Having the geographical advantage position, Sabang FTZ should ideally be able to become a new gateway for investment in goods and services from abroad. Sabang is becoming increasingly important because it is the only in-country free-port and free-trade zone in Indonesia that has been legalized under Law No. 2 of 2000, which has been subsequently stipulated as Law No. 37 of 2000, and Law No. 11 of 2006, concerning The Local Government of Aceh (LoGA).

To implement Law No. 37 of 2000, the government has established the Sabang Regional Council (DKS) and the Sabang Management and Development Agency (BPKS). The Governor of Aceh Province, the Regent of Aceh Besar District, and the Major of Sabang are the members of DKS. BPKS is responsible for managing, developing, and building the area of Sabang FTZ. According to the law, BPKS is authorized to grant business permits in Sabang. In addition, BPKS is also authorized to conduct guidance or coaching and integration of policies with the Aceh Provincial Government and other regencies/cities across Aceh.

Furthermore, the exclusive right to manage the Sabang area is also one important point outlined in a memorandum of understanding (The "Helsinki MoU") between GoI and GAM in 2015. It is one strong rationale for the formation of the Sabang FTZ. And then UUPA No.

11 of 2006, also derived from the Helsinki MoU Articles 4, 167, 168, 169, and 170, describes Sabang as a Free-Port and Free-Trade Area. Article 4 mentions the general rules mechanisms and autonomy for the Aceh government, both provincial and district/city, to form a special area after obtaining approval from the parliament at the provincial level (DPRA) and parliament at the district/cities level (DPRK). Then in Article 167 to Article 170, the Sabang Free Port and Free Trade Area are specifically discussed. According to BPKS, as outlined in the 2006 Master Plan, the management of the Sabang area is focused on four aspects: deep sea, tourism, fisheries, and trade. BPKS provides supporting infrastructure for these four aspects, especially in tourism sector.

Technically speaking, as the chairperson of the DKS, the governor has issued several governor regulations related to the position, duties, functions, authority, structure, and organization of BPKS. One of the regulations is the Decree of DKS Chairperson No. 17/2014 concerning the Organization and Working Procedure of BPKS. There are some important points outlined in this regulation, such as the authority to make rules, business licenses, investment permits, and control of export-import activities, etc., by cooperating with government officials to launch the inspection and other types of joint-supervision.

From the analysis that follows, it is argued that the once-famous ideal political instrument prepared to revive the economic development of the northernmost island of Indonesia following the long-protracted conflict in Aceh since 2000 has not paid off. Today, after heavy GoI investment, especially in infrastructure within the last two decades, the so-called “zero kilometer” Sabang FTZ strategic location cannot live up to the expectations due to its mostly mismanaged coordination and political dealings with the local government through BPKS. AS, a BPKS official admitted that:

Indeed, there is a problem with the top officials and management. You know, the changes of officials and management, which seems to be normal here now. Too many politics in the bureaucracy and management. Lack of stability. Sometimes one has barely started to work before then being replaced by the new managers. This also leads to the change of coordinative actions (AS).

Some argue that the lack of sufficient and capable human resources is the major obstacle for Sabang FTZ. The Nigerian FTZ’s failure to achieve its objective, according to the data analysis shown by Ezike, Ukemenam, and Chijioke (2019), may come to terms with what we have seen here in Sabang FTZ. They said that the country is not diversified in exports, relying on oil and gas production alone. They are struggling to be more competitive without expanding their export strengths (Zaafraane & Mahjoub, 2000).

In the same light, MI reiterates:

In my observation, since 2000, no economic recovery has been made. Of course, we can see some minor improvements in tourism sector. I think, we need to encourage the investment office to actively engage in the process. We need good coordination, including from customs and its documents-wise arrangement; and we seriously need good human resources to manage this (MI).

Regardless of Sabang FTZ's duty-free status, BPKS management was not, for the most part, effective in attracting investment. On the one hand, in the tourism sector, foreign owners decided to channel their money via local business people or citizens to avoid taxes. On the other hand, non-tourism sectors like industries and export-import activities were not particularly promising due to their lack of support, planning and overlapping regulation. As stated by ZU, a youth leader and well-known figure in Sabang:

To inspect, for example, the sugar factory in Sabang or specific food production Sabang FTZ, we have BPPOM (National Agency of Drug and Food Control). It is a national standard. So does quarantine regulation. It belongs to the custom office. But we don't really have regulations that may attract investment. They all have to comply with the abovementioned national standard from BPPOM, the customs etc., whereas most local importers only have relatively small ship made of wood (ZU).

Further disappointment in managing Sabang FTZ is reflected by Participant AL's scepticism of the individual's ability to organize workable coordinative mechanisms between key stakeholders:

Honestly, for goods imported to Sabang via BPKS, they only gave us short notice. So, we, as security officials, cannot get more involved. We can only supervise from afar, we oversee the number of the imported items. BPKS thinks that this is their mandate, their exclusive right. I think they are going backward with their management style, by snubbing other regulations. No coordination. If any... very minimum. This is the problem (AL).

The overall environment did not benefit the economy of Sabang FTZ. Local-level managerial standoffs with critical stakeholders and concurring political stalemate between the local governments and the national government's inattentiveness have led to slower response and conflicting roles. As another view are expressed by AL below:

But if we carefully measure the direct benefit towards the improvement of Sabang economic events and activities, it is far - very far from our expectation in Sabang. If we talk about scaling 1 to 10, I would give score 2. So poor.

An almost similar tone to that read in Sabang FTZ's less-coordinated case between policymakers and stakeholders is voiced by SF, Aceh Provincial Communication and Information Office, below:

In this regard, we just received official letter from the General Director of Customs Office in Aceh, offering a joined campaign on liquid for electronic cigarette refill procedure. We immediately contacted them for the content to be published in our banners, no answer. We are ready, but they did nothing until now (SF).

2. A Dilemmatic Perspective: Between Aceh and Jakarta

To understand Aceh, including the management of BPKS, we must try to oversee this within the following three perspectives. First, from Jakarta's perspective, the case of Sabang FTZ and Aceh is very much related to how the central government perceives Aceh as one of the most important parts of the republic amidst its long history of conflict. The second is the Acehnese perspective. It is when both the Aceh government and Acehnese view the role of the central government, its intervention, and its seriousness in managing the Aceh conflict as a strategically located asset in the region. The third is the development perspective. It is how the government and the people of Aceh and the central government in Jakarta agree on mutual benefits and forget the conflict behind them. This development perspective is the bridge to the progress of Aceh and Indonesia in general, and collaboration between Aceh and Jakarta is the key to achieving that.

The Aceh Perspective: Blaming Jakarta, Asking for more Freedom

Of course, while stakeholders in Sabang FTZ are in dire need of good coordination, one can point the finger and blame the national government for not being serious in helping Aceh and Sabang FTZ, as voiced by the following reproach from a parliament member in Sabang:

BPKS has a non-department status. But they are under the supervision of Financial Ministry in term of budgeting. But then, because they are located in Aceh, they are also reporting to the Governor of Aceh. The Governor of Aceh in this case is the prolongation of the ministry in Aceh. In certain contexts, we can say that the national government did not pay serious attention towards BPKS and Aceh, because this is merely for the locals, for the Acehnese. If we look at Batam FTZ, the chair person is of the supervisory board is a minister. They have direct involvement, including staff placement, setting the national standard. Because Sabang FTZ in Aceh is under the governor, so does the standard, local standard. No matter what, we could say that Sabang FTZ is coming with national standard, but with local taste. Roughly speaking, this is only a political compensation (AL).

Similarly, Sabang's FTZ and BPKS capacity to provide goods or commodities needed by these cruise ships and vessels is still limited due to the following concerns:

Our problem is twofold. First we have regulation, but we do not have the power and authority yet. Second we need more time to build the infrastructure and facility as well as to be able to implement, according the Regulation No.37, the so-called public private partnership (AS).

This voice is again echoed in concern about BPKS's inability to pair with the national government's policymaking and lack of attention for Sabang FTZ. In reality, and also because Sabang FTZ was once designed as a political instrument for the separatist movement, some accused crooked officers are merely taking advantage of the peace agreement and exploiting its political economy aspect, and not focusing solely on the economic development side, something which is also familiar in several post-conflict societies across the globe (Haass & Ottmann, 2017).

Likewise, for instance, the BPKS, the coordinator of the area of Sabang, always assumes that their responsibility is only limited to licensing services, while supervision is not their focus.

Supervision is the domain of customs, but what we are able to control is the permits, the licensing services. We see it based on the actual need. So the control is there, the supervision responsibility is shared, though the customs has the main responsibility, and so is the cigarette quota (AS).

The policy is taken by BPKS in a more aggressive-exclusive approach (sometimes the coordination with other elements is very minimal) through stimuli and rationalization to boost the local community's economic growth, particularly in a post-conflict setting. For example, the BPKS argues that the quota of goods released cannot rely solely on the demand and supply of the goods but must also depend on the other aspects. Those aspects include the mobility of people from the mainland Aceh to Sabang and vice versa, the availability of infrastructure to increase "economic activity", and eventually provide the multiplier economic effect of trading activities.

The Jakarta Perspective: Focusing on Preventive Approach

On the other hand, the customs and excise office, part of the management team in Sabang, considers that the supervisory role must be prioritised. They believe that supervision in Sabang FTZ is needed to avoid financial state losses from the distribution of goods without excise and taxes, including illegal cigarettes. Therefore, customs works in a preventive scheme:

The dilemma is that the Customs work in preventing scheme, whilst BPKS only cares about licensing and controlling documents in the view of getting more and more quota to boost the economic activities (DN).

In the same light, the focus on supervision can clearly be seen in the following comments from one of their officials in Sabang FTZ:

We have tried to coordinate with BPKS regarding the quota mechanism, as we realized that we have to strengthen the control and supervision instrument to watch over the financial revenue target. If the given quota is big, then we should tighten the supervisory system because it could cause severe financial loss (HS).

Preventive control and supervision are needed. The Customs office believes that restrictions on the manipulation and embezzlement of the law by some corrupt officials and private sectors must also be handled. On that account, the Customs anticipates potential financial state losses, especially on goods distributed outside Sabang (to mainland Aceh) and goods that do not adhere to the regulations outlined within the development plan of Sabang and Aceh in general, as stated by an official from Aceh Provincial Customs Office:

.....maybe later you can check all the quota documents, for example, the quota policy, we almost do not find a correlation between the items that are imported, whether the items for the development of Aceh and Sabang or for consumption purposes. And most consumer goods imported to Sabang is not matched with the development blueprint of Sabang itself which has been appointed as the industrial zone. Even if it is a consumer goods, it must be used as production materials for industry. The problem is that we don't have the industry just yet and it needs to be built first (AL).

Development Perspective: A Work in Progress

The development perspective has not been noticed and focused on. It means only the first and second viewpoints are more visible to all parties involved, whereas this aspect went unnoticed and remains implicitly undetected. Our reading on this point is proven by the different understanding between the parties involved in the management of the Sabang area, both from the local government, in this case, the BPKS, and from the central government elements, represented by the Customs and Excise Office. Although BPKS and the Customs Office both comply with the Ministry of Finance regulations, the two parties have different interpretations of the legal-operational framework. This has caused regulatory loopholes that have made the management of Sabang's area considered unsuccessful.

Lessons learnt from several FTZ, for example, the Shanghai FTZ has made it clear that the old and outdated traditional approach of FTZ is no longer viable, as ports and harbours in the fourth-generation FTZ have transformed into value-added services and centres for commodity, capital, and information flow (Wan, Zhang, Wang, & Chen, 2014). The case of the Dominican Republic FTZ has also shown that the development perspective was put into place

when fostering economic growth was the top priority of the FTZ administration (Wagner, 2017). Manaus FTZ in Brazil also showcased a similar case. Gradually, improvement in poverty declined in the first decade of the FTZ's inception, which has become the key to the sustainable economic development of similar FTZ cases (Castilho, Menéndez, & Sztulman, 2019).

3. Illegal Cigarettes: Mechanisms for Quotas Determination and Surveillance Systems

A free-trade zone like Sabang is subject to potential illegal cigarette smuggling due to lower prices and lower tax charges (Bate, Kallen, & Mathur, 2020; L. Joossens & Raw, 1998). In China, for example, they produce fake brand cigarettes to be distributed across Asian and European countries (Luk Joossens & Raw, 2012). But what happened in Sabang is a repercussion of the same case in Russia. Illegal cigarette trading takes place in a free zone or port area with minimum supervision from customs (Cortés-Ramos, Torrecilla García, Landa-Blanco, Poleo Gutiérrez, & Castilla Mesa, 2021). In this study, the terms “illegal cigarettes” refer to the distribution of plain cigarettes without excise and the distribution of cigarettes in the free area (Free Trade Zone) to other areas outside Sabang through seaports (Syahputra & Edoorita, 2016).

Several items related to tobacco consumption need to be controlled, and their distribution needs to be monitored as they will cause negative impacts on society or the environment. Taxation needs to be imposed for justice and balance on these items. In this case, cigarettes are one of the items subject to excise. To avoid excise, some of these cigarettes are traded illegally. Here are some examples:

1. Cigarettes without excise tapes
2. Cigarettes with fabricated excise tapes
3. Cigarettes attached to used excise tapes
4. Cigarettes attached to non-right excise tapes
5. Cigarettes attached to excise tape which do not serve its purposes.
6. Cigarettes labelled as Free Zone distributions items but distributes to other areas

The threat from these illegal cigarettes comes from two principles (L. Joossens & Raw, 1998):

1. Smuggling causes the availability of cigarettes at lower prices, thereby increasing the consumption of cigarettes and the burden of financing public health insurance for the country.
2. The tobacco industry will use “smuggling” politically by lobbying the government to reduce taxes because price differences will open up more significant opportunities for smuggling.

The dilemma of implementing the free trade zone is the distribution of goods outside the designated FTZ, in this case, the illegal cigarette trade and distribution. It means that Sabang FTZ is detached from (normal) Indonesian customary law, i.e., the trading system, the burden of import duties, value-added tax, and sales tax on luxury goods. In several countries, the number of illegal cigarettes increased due to high regulation and excise on the legal cigarette, as happened in Europe, for example.

The general demand-supply features cause the increasing number of illegal cigarette distributions. The case in Poland can be taken as an example whereby the government imposed a law to raise the price of cigarettes, which caused the consumption of cigarettes from the black market to continue to escalate. The black market is organized by big companies that try to avoid taxes illegally. These companies smuggle their products at a lower price into certain market sub-groups (Ciecierski, 2007). The Sabang FTZ experiences the same situation. The demand for cigarettes increases to cope with high cigarette taxes, increasing the illegal cigarette supply. Such a situation is worsened because the Sabang FTZ is experiencing some other obstacles. The setback lies in the development focus. Initially, the focus was on developing the port sector, but currently, the focus is more on the tourism sector.

Knowing that the port sector is not optimal, the BPKS currently has a new priority that focuses more on the tourism sector. This change is influenced by the potential of the underwater beauty of Sabang. The shift in focus has a major effect on importers of consumer goods and indirectly impacts the number of goods imported to the Sabang FTZ.

In the scope of an FTZ framework, the existence of imported goods becomes one of the focal points. For FTZ, which prioritizes strategic planning in the tourism sector, the availability of goods will be more dominant. Moreover, the Sabang FTZ is currently less optimal in providing tourists' needs and goods and building its core tourism industries. Therefore, the imported goods are mainly sugar, rice, cigarettes, and others.

In the last two years, sugar and cigarettes are the most imported items to Sabang (ZF).

In this light, the mechanism of cigarettes entering Sabang FTZ is divided into three main sources.

This is regulated in PMK No. 47 of 2012 that are several instruments to control the traffic of goods. Legally speaking, cigarette quota import mechanism is regulated in Ministry of Finance Regulation No.47. 2012 coming from three sources. From abroad, from other customs areas, such as Banda Aceh, Sidoarjo, Malang and others, and from other FTZ, such as Batam, Karimun and Bintan (TA).

Currently, Sabang FTZ has regulated the procedures and provisions for importing goods, which are regulated in the Decree of the Head of the BPKS Number: 9/BPKS/2001. However, the regulations have not been detailed enough in outlining the quota. In an interview with the Supervision Customs and Excise officer, he says:

Regarding the quota, the BPKS is allowed to arrange the quota. Meanwhile Customs determines the number and the type of goods that are imported. And the Customs refers to PMK 7 where the basis is on PP No.10/2012 (AY).

The issue of the imported quota at Sabang FTZ will be technically regulated in the form of the BPKS Regulation. This regulation will provide the arrangement for each item differently. So far, the regulation on quota decision in 2015 only regulates the import of sugar as stated in Regulation Number 11 from the Head of BPKS. Whereas for other trading items, the importers' requests will be used to reference the quota decision, including on cigarettes. This is what the one-stop integrated service officer (PTSP) BPKS described in the following statement:

Basically, cigarettes (quota) have not been regulated yet, so it depends on the proposal from the importers. For example, there were cigarettes imported from Malang (East Java). There were around 250 cartons as requested by importers (TA).

Several sources from the BPKS stressed that licensing and quota regulation of goods entering the Sabang FTZ could not be determined only by considering the number of Sabang residents and the number of tourists but must also consider the number of visits.

The number of visits in this case referred as visits aimed at tourism, business purposes and social purposes (TH).

Moreover, the BPKS and its key stakeholders must regulate and define what is considered consumer goods, especially for Sabang FTZ, which is currently focusing on its revenue sources from the tourism sector. Therefore, the definition of the customers' hand luggage goods that can be transported from FTZ is more precise, including in the case of cigarette distribution outside FTZ.

It means that importers and the BPKS are the main actors in determining the import of cigarettes to the area of Sabang FTZ. The procedure is started with an offer made by the importer related to the quota of cigarettes. Then, after initial review, the BPKS issues permits with a certain quota in response to importers' requests, although the BPKS does not have any official written regulations on cigarettes. Therefore, the quantity of cigarettes entering the

Sabang FTZ depends on the recommendations from importers. Before 2018, there was only one cigarette importer, but in 2018, there was another company importing cigarettes to Sabang. The increase is caused by the assumption that cigarettes are a potential commodity and that demand is increasing in Sabang. This is as explained by one of the cigarette importers in Sabang:

The demands of cigarettes in Sabang is usually high. You know, the price is cheaper here than in other places. The price is three times cheaper than the price of cigarettes in general. We, the importers are the traders, so we do not consider and pay attention on the distribution of these cigarettes outside Sabang, because that is a responsibility of Customs. Our focus is on how many cigarettes that we can get into Sabang and can be sold to the trader or consumer. We are also not responsible for cigarettes distribution outside the Sabang. Those who smuggle it out should be responsible for it. Not us (SF).

Table 1 The list of cigarette brands imported to Sabang FTZ

No.	Brand	Type	Quota
1.	Rexo	16 white cigarettes & 20 clove cigarette	250 Cartons
2.	Spesial	Machined made clove cigarette	270 Cartons

Source: Primary data processed in 2018

According to data from PTSP (One-Stop Integrated Service Office) of BPKS, the requests for the cigarettes by the two companies were 250 boxes of Rexo from Malang and 270 boxes of Special from Sidoarjo in November 2018. Both brands were transported by land from East Java and dropped off at Sabang by ferry through the Port.

In addition to those two brands, another brand from Singapore, called “Manchester,” was imported to Sabang by ship. This brand was rejected because there was no “Free Trade Zone” label on the product. Regarding the packaging of goods in the FTZ area, two mechanisms can be packaged in the production area or the destination country. Firstly, if it is packaged in the production area, in this case the packaging must have been labelled as “Sabang Free Trade Zone”. Secondly, if it is packaged in the destination country, this can be done in two ways. 1) The ships or trucks only supply the raw materials and packaging materials, but the packaging process takes place in Sabang. 2) If the packaging process takes place in other customs areas, then 60 days are given for the process. “Manchester” brand cigarettes were re-exported to

Singapore because the importer could not do the repackaging process within the time frame due to financial limitations and equipment availability.

The fact that cigarettes are the second most dominant item in the Sabang Free Zone is likely caused by several things. First, the quota of cigarettes is not explicitly regulated. Second, there is no rationality in categorising regulated and non-consumer goods. When the cigarette is considered the customer's good, there must be an ideal quota arrangement. Similarly, if it is good for non-customers, then the ideal arrangement and the quota should also be prepared. Third, the current BPKS intention behind the establishment of the Sabang FTZ is understood to be to develop the tourism sector, where consumption calculations estimation includes the number of tourist visits from non-Acehnese or non-Indonesian visitors and the number of social visits from Sabang local community from and to Sabang within the province of Aceh. Fourth, the "Special" brand cigarette from Sidoarjo has become the favourite in Sabang and Aceh because of its taste, attracting more buyers.

Given the earlier facts, the government officially revokes the excise-free facility for excisable goods in the free trade zone (FTZ), starting May 17, 2019. Responding to this policy, BPKS added that they did not want to participate in the revocation policy of cigarette excise exemptions by GoI, insisting that Sabang FTZ is special, unlike other FTZ areas. As a result, on that official date, the government will not be in charge of handling the Free Trade Zone (CK) Excise Document-FTZ. In response to the policy, the following is an explanation from a BPKS officer:

We will try to discuss it with the Ministry of Finance, because the birth of FTZ in Sabang is different from FTZ in other regions. FTZ in Sabang has a long history and struggle, namely the Aceh conflict (SS).

All those things mentioned above will impact the distribution of cigarettes from the Free Zone of Sabang to other customs areas like the capital city of Banda Aceh and Aceh Besar. Therefore, BPKS needs to regulate the detailed and specific quota arrangement for all types of goods entering the Sabang Free Zone, as mandated since 2000 through Law No. 37 of 2000 and Government Regulation No. 83 of 2010. The delay or the absence of specific arrangements regarding the quota of goods through the regulation of the head of the BPKS will be the main challenge. The challenge is to the commitment of BPKS management, though. Not to mention that Sabang FTZ status was officially enacted in 2000, but until 2018 only one regulation has been regulated on the quota of goods, and it is for sugar.

4. Supervision System in the Sabang FTZ

Two institutions are involved in a term controlling mechanism: BPKS through licensing (quota system) and Customs through supervision. Government authority in the licensing sector for the Sabang FTZ is delegated to the BPKS. It is regulated in Government Regulation

Number 83 of 2010. It includes a) trade; b) industry; c) mining and energy; d) transportation; e) tourism; f) marine and fisheries, and g) investment. Whereas the supervision in Sabang FTZ is under the authority of Customs, both the import and export of goods from the Sabang FTZ or from Sabang FTZ to other customs areas within Indonesian jurisdictions. If the goods are distributed to another customs area, the normal customs regulations should immediately take effect. As explained in the previous section, the quota arrangement for cigarettes has not been determined, so it has the potential to be distributed into other customs areas. Therefore, those cigarettes can be referred to as illegal cigarettes in other customs areas.

Currently, the cigarettes labelled “Sabang FTZ Only” have been distributed to other customs areas. The illegal distribution was relatively high from 2015 to 2016. This is since the supervision system was not optimal for reducing the distribution of illicit cigarettes to areas outside the Sabang FTZ. Since 2016, profiling systems have been applied to minimize the diffusion of FTZ goods to other customs areas. The profiling system by using an X-ray machine has only been installed at the fast ferry port. The profiling system is conducted manually in regular ferry ports for people travelling from Sabang to Banda Aceh or vice versa.

The number of goods from FTZ that can be carried to the other customs areas is regulated in Aceh’s Governor’s Decree (the Governor is also the head of DKS) Number: 6/DKS/2001 regarding Customs Procedures in Import, Export, Passenger Goods, and Transfer Goods in the Sabang Free Port and Free Trade Area:

Article 11

b. As many as 200 cigarettes or 50 cigar or 100 grams of tobacco, and perfume in a reasonable amount. In the case of more than one type of tobaccos, it is equivalent to the ratio of the amount of tobacco products.

Article 12

(1) For excess amount of goods, as meant in Article 11 sub a, import duties and other import levies are applied to the goods.

(2) For excess amount of goods subject to excise, the excess goods as meant in Article 11 sub-b are destroyed.

The distribution of FTZ cigarettes outside the Sabang area is proven by the sighting of cigarettes that were supposed to be sold in the Sabang FTZ but were traded in other customs areas. Another way to detect the illegal trade in free zone cigarettes is by inspecting the cigarette storage in Sabang. If the warehouse is empty but low on consumption, it has likely been traded illegally to other customs areas outside the Sabang FTZ.

According to our officers, during the check, there is a serious gap between cigarettes demand and supply in Sabang. Very likely the number of cigarette circulating or being sold in Sabang is more than what is needed by the islanders. Then, we do the warehouse check, mostly empty. So we trace it to the neighbouring islands within the vicinity of Sabang FTZ. If we still cannot find it there, it is already been smuggled to the mainland (DN).

Illegal cigarettes are widely sold on the mainland of Aceh. It is also distributed to the plantation areas in the West-South Coast of Aceh, such as in Aceh Barat, Aceh Barat Selatan, Aceh Selatan, Subussalam, and Singkil. It is also distributed to Aceh Tengah and Bener Meriah. Illicit cigarettes target the plantation workers because most of the people in Aceh generally tend to maintain "prestige", including cigarette consumption. In the capital city of Banda Aceh, these illegal cigarettes were mainly distributed on the outskirts of Banda Aceh. It targeted workers, both plantation workers and building labourers. These cigarettes are from Batam and Sabang FTZ. The number of illegal cigarettes from Sabang FTZ is still relatively smaller when compared to cigarettes from Batam FTZ.

The main *modus operandi* in distributing illegal cigarettes is by putting and bringing the cigarettes from abroad or from other customs areas (at a lower price) inside passengers' luggage (Joossens and Raw, 1998). This smuggling activity is exacerbated by a weak pattern of supervision, limited supervisory resources, organization, system, and motivation. The control system for illegal trade is limited to less modern technology, such as scanning machines. As of now, the smuggling technique of illegal cigarettes in Aceh has also changed, as described in an interview by Aceh Customs Officer:

In the past, they tended to use large warehouse to store the cigarettes. Now, it is stored in the smaller shops. And usually it is kept in a room. And it is a bit troublesome for as to get in to a house to search without a warrant from the court. Well, if we go to the court to get the warrant or to report, the information will be leaked to the smugglers (AY).

E. Conclusion

The Sabang FTZ, which initially acted as compensation for the conflict in Aceh, has more complicated challenges in its implementation. However, Sabang FTZ, as a particular area, has become fundamental in the overall development of post-conflict Aceh. We found that Sabang FTZ still has its potential amidst serious mismanagement and lack of coordination attempts by the key stakeholders. The political elite's failure of Sabang FTZ's management has made way for some side effects, such as the practice of illegal cigarette distribution outside the FTZ area.

Considering its strategic position, the Sabang FTZ has to appropriately managed. This can be achieved by increasing the management's competence in controlling illegal trading by means of technology (L. Joossens & Raw, 1998). Moreover, there must be clear regulations on cigarettes to determine their legal position through the packaging of cigarettes by identifying: their tax stamps, health warnings, tar labels, nicotine and CO, brand names and prices (Ciecierski, 2007).

In the supervision system, the coordination between the BPKS and Customs must be function as expected. One of the steps that can be taken is to integrate the functions of each institution to develop the Sabang FTZ without causing a severe loss to the country's finances. In addition, an anti-smoking campaign must be intensified through education using media for consumers, educating sellers directly, and even contacting companies, in this case, importers in the Free Trade Zone.

This Sabang FTZ has seen an intensified illegal tobacco trade outside Sabang in the built-up. In general, the distribution of illegal cigarette trade has worsened public health and economic conditions. By all means, illegal cigarettes are harming two components at once. First, the state loses on the revenue, and second, the society loses on general public health.

In order to avoid losses in public revenue and health, the regulation of cigarettes must be controlled. Several things need to be done. First, the Ministry of Finance, Customs, and its supervisory board (DKS) should come together to discuss the best possible cooperative forum for Sabang FTZ, especially to anticipate the potential harm of state revenue loss from tax and excise through more technical and detailed derivative regulations. Practically speaking, this legal product can be produced and ratified at the regional level, such as a governor's decree or regulated in local regulation (Qanun), or made in the form of a Ministerial Decree or Law or Government regulation. Second, one of them is reducing the political problems in Aceh and BPKS by promoting better management professionalism and regulating and issuing a quota mechanism on imported cigarettes. Last, FTZ abandons excise-related arrangements. The FTZ only regulates this for taxes instead of tobacco excise (in this case, cigarettes), and then the state losses mentioned above can be minimized.

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2. Bukti konfirmasi review dan hasil review

(30 Desember 2023)

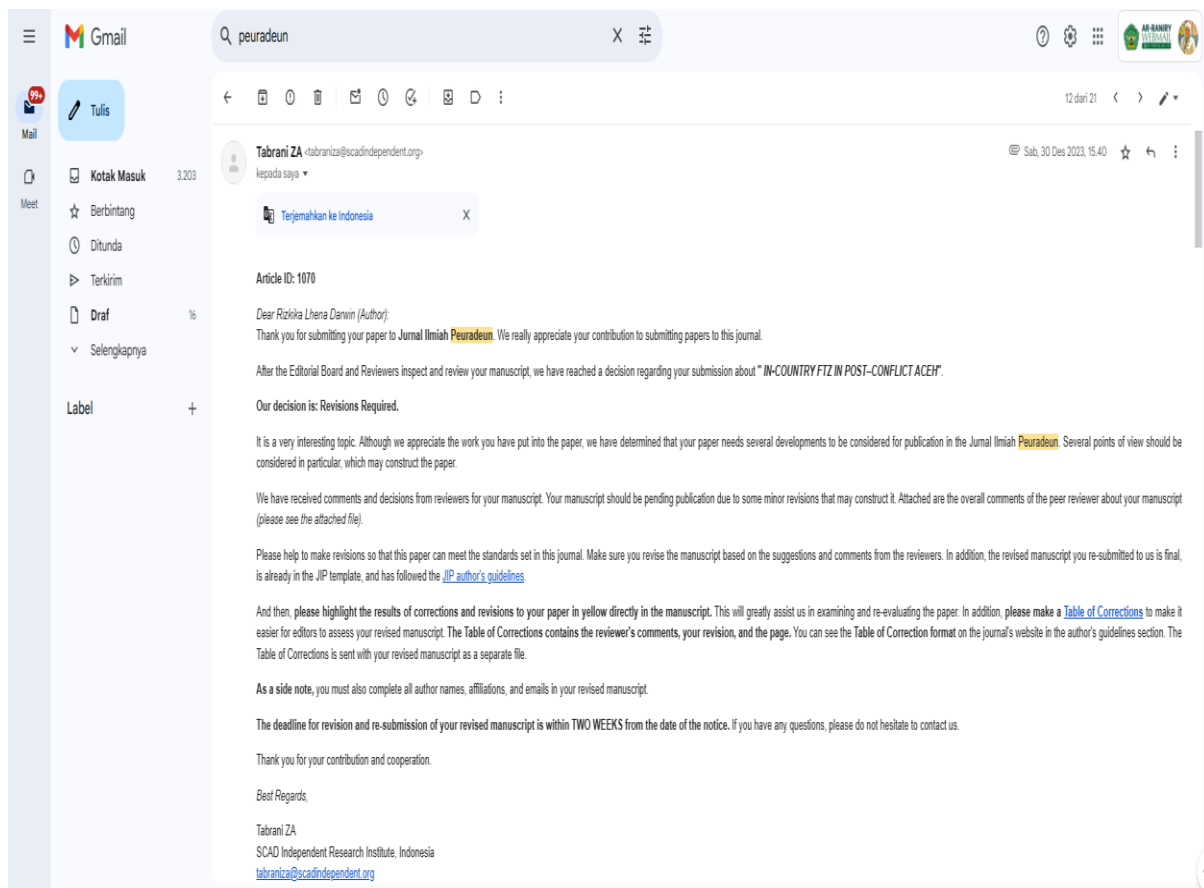


TABLE OF CORRECTION (TOC)

Article ID	:	1070
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Title of Paper :	IN-COUNTRY FTZ IN POST-CONFLICT ACEH: ECONOMIC DEVELOPMENT AND ILLEGAL CIGARETTE TRADE IN SABANG-INDONESIA
Authors :	Rizkika Lhena Darwin, Saiful Akmal, Siti Nur Zalikha

No.	Reviewer and Editor Comment	Page	Author's Correction or Comment (brief)	Page
1.	You should give your rationale for selecting this design in general and your particular design choice in particular, and discuss how these choices are appropriate to answer the question under study	1	<i>This present qualitative study is aimed to explore how Free-Trade Zone in Sabang was managed as instrument for political concession for Aceh conflict and its quota decision mechanism on illegal cigarette. By using grounded qualitative research design, we conducted 12 in-depth interviews with key stakeholders.</i>	1
2.	This suggest must you report in the result and discussion.	1	In the same light, this could become direct policy recommendations and lessons learned on illegal cigarette trade in Indonesia and other post-conflict countries and free trade zones of neighboring countries, such as Malaysia, Thailand, Singapore, and The Philippines.	24
3.	Make sure in APA style. For citations and references, it is mandatory to Use the Mendeley App	2	All draft	1-24
4.	need to justify the aims and objectives should be stated in the introduction. The authors need to discuss the significance of the study. In the introduction, I	4	However, bar for few notable exceptions (i.e. Aspinall, 2009; Phelps et al., 2011; Sustikarini, 2019; Wennmann & Krause, 2009), the abovementioned studies did not focus on how the Free Trade Zone (FTZ) area is used as instruments in peacebuilding programs and post-war societies, especially in Aceh and Sabang, where FTZ arrangements were established after a conflict. In addition, none of the studies discussed earlier highlighted the mechanism of illegal cigarette quota in the Free Trade Zone Area in in Aceh and Sabang. To this end, the present study is expected to fill this gap by exploring the dynamics of illegal cigarette trading in post-conflict Sabang FTZ implementation.	7

No.	Reviewer and Editor Comment	Page	Author's Correction or Comment (brief)	Page
	<p>did not see any research gap, so what is the background of this research from the factual conditions in the field is not clearly illustrated, and how the impact of the theory is there. Finally, I don't see what's new from this research from similar research ever done.</p>			
5.	<p>The research design should be clearly explained. In addition, we noticed that your methods are lacking detail on how exactly the study was performed. How data is collected, and how it is analyzed. you should explain this in detail and briefly.</p>	4	<p>This study design employed grounded theory methodology in qualitative research. Research utilizing various data sets or a combination of data sets is suited for grounded theory (McNabb, 2020). The first few topics that this research focuses on are political situations in post-conflict regions, the phenomenon of contraband cigarettes, and economic progress.</p> <p>The sampling technique used was purposive sampling by using snowball method, with the aim of finding informants who matched the criteria we determined. We chose a number of informants based on their involvement in the illicit cigarette trade at the Sabang FTZ in Aceh.</p> <p>In-depth interviews were the primary mode of data collection in this qualitative study design. An in-depth interview aims to gain a profound grasp of a phenomenon and the causes of specific problems (Goodman, 2001). Here, we used in-depth interviews to answer our two main research questions, namely, the ways Sabang FTZ management was being used for Aceh post-conflict political instrument, and the way exclusive cigarette quota mechanism was being regulated in FTZ Sabang.</p>	8-9

No.	Reviewer and Editor Comment	Page	Author's Correction or Comment (brief)	Page																																				
			<p>There are 11 informants we interviewed as mentioned in the following tables.</p> <p style="text-align: center;"><i>Table 1. The research informants selected to be interviewed</i></p> <table><tr><th>No.</th><th>Companion Name</th><th>Task Section</th></tr><tr><td>1.</td><td>AS</td><td>Sabang BPKS officials</td></tr><tr><td>2.</td><td>HS</td><td>One Stop Service Office</td></tr><tr><td>3.</td><td>MI</td><td>Sabang FTZ Supervisory Board</td></tr><tr><td>4.</td><td>AL</td><td>Sabang Regional Government Representatives</td></tr><tr><td>5.</td><td>SS</td><td>Aceh Local Government Agency for Dev. Planning</td></tr><tr><td>6.</td><td>ZF</td><td>Tobacco Importers</td></tr><tr><td>7.</td><td>AY</td><td>Head of the Aceh Customs Office</td></tr><tr><td>8.</td><td>DN</td><td>Sabang Customs Officers</td></tr><tr><td>9.</td><td>TA</td><td>Revenue and Revenue Service Officials</td></tr><tr><td>10.</td><td>ZU</td><td>Youth and Local Leaders in Sabang</td></tr><tr><td>11.</td><td>SF</td><td>The Provincial Information & Communication Service</td></tr></table> <p>Source: Primary data processed in 2018</p> <p>Notes from observations and field trips also supported the primary data (Phillippi & Lauderdale, 2018). The field trips were conducted twice. Additionally, in our reflection during the field trip, legal documents such as Law No.2/2000, Law No.37/2000, MoU Helsinki/2005, and Law No.11/2006 will be rewritten and regrouped by using a thematic data analysis. This is particularly important for determining keywords and defining influential themes and main patterns from the study for triangulation purposes (Jonsen & Jehn, 2009). In the process, reading transcripts repeatedly helps gain a profound understanding to find provisional conclusions and interpretations or possible relationships.</p>	No.	Companion Name	Task Section	1.	AS	Sabang BPKS officials	2.	HS	One Stop Service Office	3.	MI	Sabang FTZ Supervisory Board	4.	AL	Sabang Regional Government Representatives	5.	SS	Aceh Local Government Agency for Dev. Planning	6.	ZF	Tobacco Importers	7.	AY	Head of the Aceh Customs Office	8.	DN	Sabang Customs Officers	9.	TA	Revenue and Revenue Service Officials	10.	ZU	Youth and Local Leaders in Sabang	11.	SF	The Provincial Information & Communication Service	
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6.	You must separate the results that you achieve with the discussion.	4	C. Result and Discussion 1. Result 2. Discussion	8-23																																				

No.	Reviewer and Editor Comment	Page	Author's Correction or Comment (brief)	Page
	<p>You must explain the important points of your findings so that there is a correlation with the discussion. The analysis of the paper must be clear and comprehensive. The author must be explained research findings in the specific sub-topic. Strengthen statements or findings with data evidence from the data collection techniques used. In the discussion section, compare the findings with the latest theories or findings from international studies. The results of the research and discussion of this study have not done contributed to the purpose of</p>			

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	this research, in order to be improved.			
7.	We hadn't saw the discussion or analysis been relevant to the study results, and needs more narration about how the data can be linked to the problem. Then, what is the argument of this paper? Please add the argument and start by saying what the author really wants to argue in this article. A conceptual framework needs to be made clear to get the appropriate discussion.	20	<p>The circulation of illegal cigarettes fluctuates in Indonesia (Kasri et al., 2021). In 2007 alone, there were 19 billion illegal cigarettes circulation was recorded, compared to 14 billion in 2013. However, the highest data was ever recorded was in 2018, whereby 59 billion illegal cigarettes were in the market. Likewise, the higher illegal cigarette consumption levels occurred in 2018 at 19%. This has contributed to the estimated 24.2 million to 42.0 trillion state revenue losses, in accordance with cigarette tax revenues of 15.8% to 27.5% in 2018. In the case of Aceh, the distribution of illegal cigarettes is quite high. In 2018, Combat Operation by the Aceh Customs and Excise alone, 390.505 illegal cigarettes were found in several ports in Aceh (Writer, 2018), including the Sabang FTZ.</p> <p>The phenomenon related to the distribution of illegal cigarettes is often linked to increases in-country tobacco taxes. However, several studies state that there is no direct link between the distribution of illegal cigarettes and increases in tobacco taxes (Lavares et al., 2022; Little et al., 2020, 2021; Liutkutė-Gumarov et al., 2020; Nguyen et al., 2020; Van Der Zee et al., 2020). They indicated that there are very diverse factors in increasing the circulation of illegal cigarettes in a country, such as tobacco control regulations, law enforcement actions, and industry practices (Lavares et al., 2022); border security and law enforcement (Little et al., 2020); weak capacity and performance of tax institutions (Van Der Zee et al., 2020); as well as low education, low income, and high cigarette consumption (Liutkutė-Gumarov et al., 2020; Van Der Zee et al., 2020).</p> <p>Yet, illegal cigarette trading within FTZ presents a distinctive challenge that sets it apart from conventional forms of illicit trade. Free trade zones, designed to facilitate international commerce by reducing trade barriers, inadvertently create opportunities for criminal activities, such as the illegal cigarette trade.</p> <p>However, bar for few notable exceptions (i.e. Aspinall, 2009; Phelps et al., 2011; Sustikarini, 2019; Wennmann & Krause, 2009), the abovementioned studies focus on how FTZ arrangements were established</p>	3-7

No.	Reviewer and Editor Comment	Page	Author's Correction or Comment (brief)	Page
			after a conflict. In addition, none of the studies discussed earlier highlighted the mechanism of illegal cigarette quota in the FTZ Area in Aceh and Sabang. To this end, the present study is expected to fill this gap by exploring the dynamics of illegal cigarette trading in post-conflict Sabang FTZ implementation.	
8.	Conclusions must certainly be able to answer from the purpose of this study. And this still need discussion about contain this article.	20	<p>To sum up, the exploration of the in-country free trade zone (FTZ) in post-conflict Aceh, with a focus on the illegal cigarette trade in Sabang, Indonesia, accentuates the unique challenges faced by regions transitioning from conflict to peace. The study reveals how the establishment of free trade zones, while designed to stimulate economic growth, can inadvertently create opportunities for illicit activities, particularly in the context of a post-conflict environment.</p> <p>The Sabang FTZ, which initially acted as compensation for the conflict in Aceh, has more complicated challenges in its implementation. However, Sabang FTZ, as a particular area, has become fundamental in the overall development of post-conflict Aceh. We found that Sabang FTZ still has its potential amidst serious mismanagement and lack of coordination attempts by the key stakeholders. The political elite's failure of Sabang FTZ's management has made way for some side effects, such as the practice of illegal cigarette distribution outside the FTZ area.</p> <p>This Sabang FTZ has seen an intensified illegal tobacco trade outside Sabang in the built-up. In general, the distribution of illegal cigarette trade has worsened public health and economic conditions. By all means, illegal cigarettes are harming two components at once. First, the state loses on the revenue, and second, the society loses on general public health.</p> <p>Lessons drawn from this study can inform policymakers and practitioners engaged in post-conflict recovery, offering valuable insights into the complexities of in-country free trade zones and the imperative of implementing measures to ensure that economic growth aligns with legal and ethical standards. Ultimately, addressing the issue of illegal cigarette trade in Sabang serves as a miniature for the broader task of achieving economic stability and resilience in post-conflict regions, such as Malaysia, Thailand, Singapore, and The Philippines.</p>	24

Note:

Please highlight the results of corrections and revisions to your paper in yellow directly in the manuscript.

This will greatly assist us in examining and re-evaluating the paper.

TABLE OF CORRECTION (TOC)

Article ID	:	1070
Title of Paper	:	IN-COUNTRY FTZ IN POST-CONFLICT ACEH: ECONOMIC DEVELOPMENT AND ILLEGAL CIGARETTE TRADE IN SABANG-INDONESIA
Authors	:	Rizkika Lhena Darwin, Saiful Akmal, Siti Nur Zalikha

No.	Reviewer and Editor Comment	Page	Author's Correction or Comment (brief)	Page
1	There should be no abbreviations in the title	1	IN-COUNTRY FREE TRADE ZONE IN POST-CONFLICT ACEH: ILLEGAL CIGARETTE TRADE IN SABANG-INDONESIA	1
2.	The introduction is good and provides a fairly comprehensive background on the post-conflict situation in Aceh, including the factors that played a role in the conflict. However, the emphasis on conflict, peace and political	2	<p>The circulation of illegal cigarettes fluctuates in Indonesia (Kasri et al., 2021). In 2007 alone, there were 19 billion illegal cigarettes circulation was recorded, compared to 14 billion in 2013. However, the highest data was ever recorded was in 2018, whereby 59 billion illegal cigarettes were in the market. Likewise, the higher illegal cigarette consumption levels occurred in 2018 at 19%. This has contributed to the estimated 24.2 million to 42.0 trillion state revenue losses, in accordance with cigarette tax revenues of 15.8% to 27.5% in 2018. I the case of Aceh, the distribution of illegal cigarettes is quite high. In 2018, Combat Operation by the Aceh Customs and Excise alone, 390.505 illegal cigarettes were found in several ports in Aceh (Writer, 2018), including the Sabang FTZ.</p> <p>The phenomenon related to the distribution of illegal cigarettes is often linked to increases in-country tobacco taxes. However, several studies state that there is no direct link between the distribution of illegal cigarettes and increases in tobacco taxes (Lavares et al., 2022; Little et al., 2020, 2021; Liutkutė-Gumarov et al., 2020; Nguyen et al., 2020; Van Der Zee et al., 2020). They indicated that there are very diverse factors in increasing the</p>	3-7

No.	Reviewer and Editor Comment	Page	Author's Correction or Comment (brief)	Page
	<p>development is slightly more dominant than the focus on certain economic aspects, such as the illegal cigarette trade in the Sabang FTZ.</p> <p>The general research objectives have also been conveyed well. However, a more detailed explanation of how this research will fill gaps in the understanding of economic development instruments in peace programs and post-conflict communities could be a useful addition.</p> <p>Additionally, the theoretical framework used in the introduction has not been fully explored in depth. There</p>		<p>circulation of illegal cigarettes in a country, such as tobacco control regulations, law enforcement actions, and industry practices (Lavares et al., 2022); border security and law enforcement (Little et al., 2020); weak capacity and performance of tax institutions (Van Der Zee et al., 2020); as well as low education, low income, and high cigarette consumption (Liutkutė-Gumarov et al., 2020; Van Der Zee et al., 2020).</p> <p>Yet, illegal cigarette trading within FTZ presents a distinctive challenge that sets it apart from conventional forms of illicit trade. Free trade zones, designed to facilitate international commerce by reducing trade barriers, inadvertently create opportunities for criminal activities, such as the illegal cigarette trade.</p> <p>In our paper, the existence of Sabang FTZ is of the main yet understudied topics of discussion in understanding the post-conflict peacebuilding dilemma in Aceh. This longprotracted conflict has attracted the interest of prior researchers to explore topics focusing on politics and economic development of post-conflict regions. Some studies highlight the need to link peacebuilding with elections in post-conflict settings (Ansori, 2012; Candelaria, 2020), democracy and post-conflict corruption (Le Billon, 2008), public administration and governance (Hillman, 2013), education policy (Shah & Lopes Cardozo, 2014), political parties (Reilly, 2013), local tradition involvement in transitional justice (Horne, 2014), local election and campaign (Akmal et al., 2020), generic economic dimensions and autonomy (Phelps et al., 2011).</p> <p>However, bar for few notable exceptions (i.e. Aspinall, 2009; Phelps et al., 2011; Sustikarini, 2019; Wennmann & Krause, 2009), the abovementioned studies focus on how FTZ arrangements were established after a conflict. In addition, none of the studies discussed earlier highlighted the mechanism of illegal cigarette quota in the FTZ Area in Aceh and Sabang. To this end, the present study is expected to fill this gap by exploring the dynamics of illegal cigarette trading in post-conflict Sabang FTZ implementation.</p>	

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	<p>are several theoretical frameworks that can be introduced, such as illegal trade theory, post-conflict economic theory, or theories related to economic development in post-conflict contexts. The addition of a strong theoretical framework will strengthen the conceptual foundation for this research.</p> <p>Important information that may not have been presented is: more details about the impact of the illegal cigarette trade on the local and national economy, the role of local and national governments in addressing the problem of this illegal</p>			

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	trade, as well as the methodological approach that will be used in the research to analyze the dynamics of the illegal trade.																								
3.	<p>Overall, the chosen approach to research design and data collection appears sound and in line with the aims of qualitative research to explore complex and multifaceted phenomena.</p> <p>However, it seems that this research is too old, as can be seen from the year of data collection, namely 2018</p>	4	<p>This study design employed grounded theory methodology in qualitative research. Research utilizing various data sets or a combination of data sets is suited for grounded theory (McNabb, 2020). The first few topics that this research focuses on are political situations in post-conflict regions, the phenomenon of contraband cigarettes, and economic progress.</p> <p>The sampling technique used was purposive sampling by using snowball method, with the aim of finding informants who matched the criteria we determined. We chose a number of informants based on their involvement in the illicit cigarette trade at the Sabang FTZ in Aceh.</p> <p>In-depth interviews were the primary mode of data collection in this qualitative study design. An in-depth interview aims to gain a profound grasp of a phenomenon and the causes of specific problems (Goodman, 2001). Here, we used in-depth interviews to answer our two main research questions, namely, the ways Sabang FTZ management was being used for Aceh post-conflict political instrument, and the way exclusive cigarette quota mechanism was being regulated in FTZ Sabang.</p> <p>There are 11 informants we interviewed as mentioned in the following tables.</p> <div><p>Table 1. The research informants selected to be interviewed</p><table><tr><th>No.</th><th>Companion Name</th><th>Task Section</th></tr><tr><td>1.</td><td>AS</td><td>Sabang BPKS officials</td></tr><tr><td>2.</td><td>HS</td><td>One Stop Service Office</td></tr><tr><td>3.</td><td>MI</td><td>Sabang FTZ Supervisory Board</td></tr><tr><td>4.</td><td>AL</td><td>Sabang Regional Government Representatives</td></tr><tr><td>5.</td><td>SS</td><td>Aceh Local Government Agency for Dev. Planning</td></tr><tr><td>6.</td><td>ZF</td><td>Tobacco Importers</td></tr></table></div>	No.	Companion Name	Task Section	1.	AS	Sabang BPKS officials	2.	HS	One Stop Service Office	3.	MI	Sabang FTZ Supervisory Board	4.	AL	Sabang Regional Government Representatives	5.	SS	Aceh Local Government Agency for Dev. Planning	6.	ZF	Tobacco Importers	8-9
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			<p>7. AY Head of the Aceh Customs Office</p> <p>8. DN Sabang Customs Officers</p> <p>9. TA Revenue and Revenue Service Officials</p> <p>10. ZU Youth and Local Leaders in Sabang</p> <p>11. SF The Provincial Information & Communication Service</p> <hr/> <p>Source: Primary data processed in 2018</p> <p>Notes from observations and field trips also supported the primary data (Phillippi & Lauderdale, 2018). The field trips were conducted twice. Additionally, in our reflection during the field trip, legal documents such as Law No.2/2000, Law No.37/2000, MoU Helsinki/2005, and Law No.11/2006 will be rewritten and regrouped by using a thematic data analysis. This is particularly important for determining keywords and defining influential themes and main patterns from the study for triangulation purposes (Jonsen & Jehn, 2009). In the process, reading transcripts repeatedly helps gain a profound understanding to find provisional conclusions and interpretations or possible relationships.</p>	
4.	Document analysis should be carried out clearly and thoroughly. The resulting findings should be in line with the techniques and methods used in data collection. It is recommended that you strengthen your statements and findings by presenting	4	<p>Notes from observations and field trips also supported the primary data (Phillippi & Lauderdale, 2018). The field trips were conducted twice. Additionally, in our reflection during the field trip, legal documents such as Law No.2/2000, Law No.37/2000, MoU Helsinki/2005, and Law No.11/2006 will be rewritten and regrouped by using a thematic data analysis. This is particularly important for determining keywords and defining influential themes and main patterns from the study for triangulation purposes (Jonsen & Jehn, 2009). In the process, reading transcripts repeatedly helps gain a profound understanding to find provisional conclusions and interpretations or possible relationships.</p>	<p>Page 8</p> <p>Page 9</p>

No.	Reviewer and Editor Comment	Page	Author's Correction or Comment (brief)	Page
	<p>data evidence that comes from the data collection techniques that you have applied.</p> <p>It is important to create a strong connection between the results of the analysis and the data collection techniques used. Therefore, consider providing concrete examples or relevant data quotes to support each statement you make. By presenting the evidence, you will build a more solid foundation for your conclusions, and this will strengthen the integrity and validity of the analysis you present.</p>			

No.	Reviewer and Editor Comment	Page	Author's Correction or Comment (brief)	Page
	<p>Furthermore, make comparisons between the results of your analysis with previous findings or relevant theories. This will add an added dimension to your analysis and enrich the reader's view of the conclusions you present. Finally, make sure that your analytical presentation style is not only clear and systematic, but also able to depict a close relationship between the results and the data collection method you have used. With this approach, your analysis will have significantly more depth and breadth.</p>			
5.	You must separate the	4	C. Result and Discussion	8-23

No.	Reviewer and Editor Comment	Page	Author's Correction or Comment (brief)	Page
	results that you achieve with the discussion. Before you explain the results, it's good to have a little introduction.		1. Result 2. Discussion	
6.	In the Discussion, we recommend that you complete the information by paying attention to aspects related to the research data that you have obtained. We suggest that you build on your arguments, and we suggest starting by clearly identifying the point of contention that you wish to explore in this article. In order to achieve an in-depth and substantial discussion, it is important that you design a very detailed conceptual framework.	4	<p>The exclusive right to manage the Sabang area is also one important point outlined in a memorandum of understanding (The “Helsinki MoU”) between GoI and GAM in 2015. It is one strong rationale for the formation of the Sabang FTZ. And then UUPA No. 11 of 2006, also derived from the Helsinki MoU Articles 4, 167, 168, 169, and 170, describes Sabang as a Free-Port and Free-Trade Area. Article 4 mentions the general rules mechanisms and autonomy for the Aceh government; both provincial and district/city, to form a special area after obtaining approval from the parliament at the provincial level (DPRA) and parliament at the district/cities level (DPRK). Then in Article 167 to Article 170, the Sabang Free Port and Free Trade Area are specifically discussed. According to BPKS, as outlined in the 2006 Master Plan, the management of the Sabang area is focusing on four main aspects: deep sea, tourism, fisheries, and trade. In this light, BPKS provides supporting infrastructure for these four aspects, especially in tourism sector.</p> <p>However, there is a dilematic perspective between Aceh and Jakarta in post-conflict economic development. This voice is again echoed in concern about BPKS’s inability to pair with the national government's policymaking and lack of attention for Sabang FTZ. In reality, and also because Sabang FTZ was once designed as a political instrument for the separatist movement, some accused crooked officers are merely taking advantage of the peace agreement and exploiting its political economy aspect. As a result, they are not focusing solely on the economic development aspect, something which is also familiar in several post-conflict societies across the globe (Haass & Ottmann, 2017).</p> <p>Lessons learnt from several FTZ, for example, the Shanghai FTZ has made it clear that the old and outdated traditional approach of FTZ is no longer viable, as ports and harbours in the fourth-generation FTZ have transformed into value-added services and centres for commodity, capital, and information flow (Wan et al., 2014). The case of the Dominican Republic FTZ has also shown that the development perspective was put into place</p>	18-23

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	<p>Thus, you will be able to create a strong foundation to direct readers through the contents of the articles that you present. Also add elements that support each argument, such as case examples or relevant empirical evidence. These details will enrich the reader's understanding of the point of view that you put forward in your writing. Be sure to refer to valid and relevant sources to strengthen your argument.</p>		<p>when fostering economic growth was the top priority (Wagner, 2017). Manaus FTZ in Brazil also showcased a similar instance. Gradually, improvement in poverty declined in the first decade of the FTZ's inception, which has become the key to the sustainable economic development of similar FTZ cases (Castilho et al., 2019).</p> <p>Futhermore, a free-trade zone like Sabang is subject to potential illegal cigarette smuggling due to lower prices and lower tax charges (Bate et al., 2020; Joossens & Raw, 1998a). In China, for example, they produce fake brand cigarettes to be distributed across Asian and European countries (Joossens & Raw, 2012). But what happened in Sabang is a repercussion of the same case in Russia. Illegal cigarette trading takes place in a free zone or port area with minimum supervision from customs (Cortés-Ramos et al., 2021). In this study, the terms “illegal cigarettes” refer to the distribution of plain cigarettes without excise and the distribution of cigarettes in the free area (Free Trade Zone/FTZ) to other areas outside Sabang FTZ through seaports (Syahputra & Edoorita, 2016).</p> <p>Several items related to tobacco consumption need to be controlled, and their distribution needs to be monitored as they will cause negative impacts on society or the environment. Taxation needs to be imposed for justice and balance on these items. In this case, cigarettes are one of the items subject to excise. To avoid excise, some of these cigarettes are traded illegally.</p> <p>The threat from these illegal cigarettes comes from two principles (Joossens & Raw, 1998a):</p> <ol style="list-style-type: none"> 3. Smuggling causes the availability of cigarettes at lower prices, thereby increasing the consumption of cigarettes and the burden of financing public health insurance for the country. 4. The tobacco industry will use “smuggling” politically by lobbying the government to reduce taxes because price differences will open up more significant opportunities for smuggling. <p>The dilemma of implementing the free trade zone is the distribution of goods outside the designated FTZ, in this case, the illegal cigarette trade and distribution. It means that Sabang FTZ is detached from (normal) Indonesian customary law, i.e., the trading system, the burden of import duties, value-added tax, and sales tax on luxury goods. In several countries, the number of illegal cigarettes increased due to high regulation and excise on the legal cigarette, as happened in Europe, for example.</p>	

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			<p>The general demand-supply features cause the increasing number of illegal cigarette distributions. The case in Poland can be taken as an example whereby the government imposed a law to raise the price of cigarettes, which caused the consumption of cigarettes from the black market to continue to escalate. The black market is organized by big companies that try to avoid taxes illegally. These companies smuggle their products at a lower price into certain market sub-groups (Ciecierski, 2007). The Sabang FTZ experiences the same situation. The demand for cigarettes increases to cope with high cigarette taxes, increasing the illegal cigarette supply. Such a situation is worsened because the Sabang FTZ is experiencing some other obstacles. The setback lies in the development focus. Initially, the focus was on developing the port sector, but currently, the focus is more on the tourism sector.</p> <p>Moreover, the BPKS and its key stakeholders must regulate and define what is considered consumer goods, especially for Sabang FTZ, which is currently focusing on its revenue sources from the tourism sector. Therefore, the definition of the customers' hand luggage goods that can be transported from FTZ is more precise, including in the case of cigarette distribution outside FTZ.</p> <p>Considering its strategic position, the Sabang FTZ has to be appropriately managed. This can be achieved by increasing the management's competence in controlling illegal trading by means of technology (Joossens & Raw, 1998). Moreover, there must be clear regulations on cigarettes to determine their legal position through the packaging of cigarettes by identifying: their tax stamps, health warnings, tar labels, nicotine and CO, brand names and prices (Ciecierski, 2007).</p> <p>Hence, the most important thing for the government to do is to track and monitor illegal cigarette trading activities. For example, it is advisable to adopt a tracking system to limit the illegal cigarette trade as practiced in Georgia, which is stated in the WHO Framework Convention for Tobacco Control (FCTC) protocol for eliminating the trade in illegal tobacco products (Paraje et al., 2022), streamlining tax administration and supply chain controls (Mengesha & Ross, 2023), as well as effective enforcement of supply chains (Szklo & Drope, 2023). Even policies to minimize the circulation of illegal cigarettes require a differential approach based on local characteristics (Maldonado et al., 2020), such as in the case of Sabang Free Trade Zone in Aceh</p>	

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Note:

Please highlight the results of corrections and revisions to your paper in yellow directly in the manuscript.

This will greatly assist us in examining and re-evaluating the paper.

**3. Bukti konfirmasi submit revisi
pertama, respon
kepada reviewer, dan artikel yang
diresubmit
(14 Januari 2024)**



IN-COUNTRY FREE TRADE ZONE IN POST-CONFLICT ACEH: ILLEGAL CIGARETTE TRADE IN SABANG-INDONESIA

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Abstract

The implementation of the Sabang Free-Trade Zone (FTZ) has implications for the increasing distribution of illegal cigarettes in the mainland areas of Aceh. It increases the burden on state financial losses, community health problems, and the workload on customs to conduct control and supervision. This present qualitative study is aimed to explore how Free-Trade Zone in Sabang was managed as instrument for political concession for Aceh conflict and its quota decision mechanism on illegal cigarette. By using grounded qualitative research design, we conducted 12 in-depth interviews with key stakeholders. There are four important findings reflected in this study. First, the Sabang-Free Trade Zone management is highly influenced by political aspects and a lack of managerial competence. The second finding indicates a dilemmatic perspective of the conflicting parties seeing Sabang FTZ. The third finding then reveals that the quota mechanism related to the distribution of imported cigarettes has not been regulated and merely relies upon importers' requests. The latest findings also suggest that the control and supervision system at Sabang FTZ is weak. These findings are expected to serve as the foundation for policy recommendations and lessons on illegal cigarette trade in Indonesia and other post-conflict countries (direct) and free trade zones of neighboring countries. like Malaysia, Thailand, Singapore, and The Philippines.

Keywords: Dilemma of Economic Development, FTZ, Illegal Cigarette Trade, Post-Conflict Aceh, Sabang-Indonesia.

A. Introduction

Aceh has an exceptional strategic position economically in Indonesia. Aceh is positioned where the Malacca Strait and the Indian Ocean converge. This region went through a prolonged conflict that inflicted a financial loss and other harm to Indonesia and the Acehnese themselves (Baikoeni & Oishi, 2016; Schiller, 2011). Numerous factors, such as disagreements over structural politics and democracy (Jemadu, 2004) natural resources management (McCarthy, 2007), security issues (Barter, 2013), cultural claims and heritage (Daly & Rahmayati, 2012; Miller, 2004), and post-conflict and post-tsunami reconstruction and infrastructure availability (Barron, 2008) were believed to be some causes of the protracted conflict in Aceh.

The conflict between the Government of Indonesia (GoI) and the *Gerakan Aceh Merdeka* or Free Aceh Movement (GAM) was instigated on December 4, 1976, marked by the establishment of the movement (Schulze, 2006). The injustice of the central government drove the demand for independence from the Republic of Indonesia to Aceh (Waizenegger & Hyndman, 2010). Aceh subsequently underwent a physical and economic development deterioration during the conflict (McCarthy, 2007). On December 26, 2004, a massive earthquake and tsunami hit Aceh. After the disaster, GoI and GAM agreed to start another round of peace talks with Aceh (Ahtisaari, 2008; Husain et al., 2007).

Acehnese people believe GAM is a legitimate rebel organisation that would assure a bright future for post-conflict Aceh following the Helsinki peace negotiations in 2005 (Budiatri, 2022). The peace in Aceh was officially achieved after signing the peace agreement of the Helsinki MoU on August 15, 2005 (Morfit, 2007). In the peace agreement, some powers are granted to the Aceh local government, although this is not the first time Aceh was granted such authority (Barron & Clark, 2006). Aceh had previously been given authority such as the power to control Sabang free-port in 2000 to stop the demands for separation from GoI.

Post-reform Indonesia was marked by the fall of the New Order regime (*Orde Baru*) led by President Soeharto and the burgeoning democracy across Indonesia (Bunte & Ufen, 2009), most notably the ever-growing importance of parliamentary elections and political parties (Ufen, 2010), amidst the fierce competition for presidential leadership (Ziegenhain, 2009). To prevent Aceh and other conflict-prone regions in Indonesia from demanding independence, instrumental policies emphasizing decentralization, autonomy, and regional aspirations were implemented (Bunnell & Ann Miller, 2011; Miller, 2004), such as the establishment of local political parties (Stange & Patock, 2010). One of them was initiated during the administration of President Abdurrahman Wahid (Niksch, 2001), whereby Aceh was given greater autonomy and the authority to have a free-trade zone (FTZ) in Sabang (Reid, 2004). The regulation of Sabang as a Free trade area and free port is thus regulated in Law No. 37/2000 by the Indonesian Ministry of Justice, Law and Human Rights.

In Law number 37 of 2000, it is regulated that Sabang is designated as the Free-trade and Free-port area (Webster, 2007). It means that goods imported to and exported from Sabang are free from tax and excise rates. Ever since 2000 onwards, this arrangement has given

significant rises in the cigarettes trade. The tax-free imported cigarettes have a lower price. Thus, the illegal selling of cigarettes from Sabang to other customs zones has intensified, particularly in the coastal regions of Banda Aceh's capital city and its neighbouring district such as Aceh Besar.

According to the law, the Sabang Management and Development Agency (*Badan Pengelola Kawasan Sabang*, henceforth BPKS) manages the free trade zones and free ports of Sabang, particularly in terms of licensing. However, customs has a role when it becomes a matter of oversight. If oversight is inadequate, the flow of contraband cigarettes to other regions of Aceh will inevitably expand.

The circulation of illegal cigarettes fluctuates in Indonesia (Kasri et al., 2021). In 2007 alone, there were 19 billion illegal cigarettes circulation was recorded, compared to 14 billion in 2013. However, the highest data was ever recorded was in 2018, whereby 59 billion illegal cigarettes were in the market. Likewise, the higher illegal cigarette consumption levels occurred in 2018 at 19%. This has contributed to the estimated 24.2 million to 42.0 trillion state revenue losses, in accordance with cigarette tax revenues of 15.8% to 27.5% in 2018. In the case of Aceh, the distribution of illegal cigarettes is quite high. In 2018 “*Operation Gempur*” or Combat Operation by the Aceh Customs and Excise alone, 390,505 illegal cigarettes were found in several ports in Aceh (Writer, 2018), including the Sabang Free Port.

The term “illegal trading” (Bhagwati, 1981; George, 2008; Wang, 2020) or “illegal markets” (Fiorentini, 1999; Mayntz, 2017) or “illegal transactions” (Bhagwati, 1981; Braulke, 1977) refers to a variety of unethical conduct taken by people or organizations in the financial markets where they transgress established rules and laws intended to promote honest and open business dealings. These actions frequently damage investor confidence, jeopardize the integrity of financial systems, and weaken the core ideas of fair market participation. In this article, we adopt Bhagwati (1981, 2014) term of illegal trading concept is which is generally linked to legal access arguments.

The phenomenon related to the distribution of illegal cigarettes is often linked to increases in-country tobacco taxes. However, several studies state that there is no direct link between the distribution of illegal cigarettes and increases in tobacco taxes (Lavares et al., 2022; Little et al., 2020, 2021; Liutkutė-Gumarov et al., 2020; Nguyen et al., 2020; Van Der Zee et al., 2020). They indicated that there are very diverse factors in increasing the circulation of illegal cigarettes in a country, such as tobacco control regulations, law enforcement actions, and industry practices (Lavares et al., 2022); border security and law enforcement (Little et al., 2020); weak capacity and performance of tax institutions (Van Der Zee et al., 2020); as well as low education, low income, and high cigarette consumption (Liutkutė-Gumarov et al., 2020; Van Der Zee et al., 2020).

For the purpose of preventing, detecting, and prosecuting such acts, as well as ensuring the integrity of international financial systems, it is imperative that regulatory agencies and market participants have a thorough understanding of the subtleties involved in these kinds of illegal trade. There are many different types of illegal trading, and each

presents different difficulties for law enforcement and regulatory organizations. The world of illegal trading is huge and intricate, ranging from insider trading, whereby people use confidential knowledge for their own benefit, to market manipulation, which includes manipulating asset values artificially. Pump and dump schemes, inside trading, money laundering, and front running are just a few examples of the wide range of illegal activities that have the potential to negatively affect financial markets.

With the purpose of persuading others to purchase the stock and then selling their own shares at the inflated price, fraudsters, in pump and dump scheme type of illegal trading, manipulate the price of a stock artificially. Siering (Siering, 2019) observe that the optimistic prospect guaranteed is not confirmed by commercial news. This often happened in the crypto currency economics (Hamrick et al., 2018) and stock market (Huang & Cheng, 2015). Securities authorities actively look into and prosecute those who engage in pump and dump schemes in order to safeguard investors and uphold the integrity of the market.

Another form of illegal trading, insider trading, is when individuals such as officers, directors and mayor shareholders with access to non-public information about a company use that information to trade stocks, bonds, or other securities for personal gain (Seyhun, 2000). In many cases and countries, insider trading is deemed unfair, unethical and unlawful. There are at least two types of insider trading. The first one is traditional insider trading like buying or selling a company based on nonpublic information. The second one is tipper-tippee trading where an insider (tipper) provides material information to external parties (tippee).

The next type of illegal trading is money laundering. Money laundering is committed through a series of transactions or commercial activities, illegally obtained monies are disguising their true source, making it more difficult to track them down (Sullivan & Sullivan, 2015). To identify and stop money laundering operations, anti-money laundering (AML) laws and regulations have been implemented worldwide (Kemal, 2014).

The last of the many types of illegal trading is by using advance information of pending orders from their clients, a broker or trader executes orders on a security for their own account (Bernhardt & Taub, 2008). This type is known as front running. Front running is illegal, and financial regulators have measures in place to detect and penalize such activities.

Illegal cigarette trading within free trade zones presents a distinctive challenge that sets it apart from conventional forms of illicit trade. Free trade zones, designed to facilitate international commerce by reducing trade barriers, inadvertently create opportunities for criminal activities, such as the illegal cigarette trade.

Unlike some other forms of illegal trading that may involve manipulation of financial instruments, insider information, or market prices, illegal cigarette trading often exploits regulatory loopholes within these types of illegal trading. Criminal networks leverage the relative lack of stringent controls in these areas, allowing for the production, storage, and distribution of counterfeit or untaxed cigarettes. The unique nature of illegal cigarette trading in free trade zones requires a targeted approach from law enforcement and regulatory bodies

to address the specific challenges posed by these zones and protect public health, revenue streams, and the overall integrity of global trade systems.

Illegal cigarette trade in FTZ Sabang is affected by the post-conflict economic. The transition from wartime to peacetime economy involves a shift from a focus on military expenditures to reconstruction and development. This transition can be complex and may require comprehensive economic reforms. Torjesen (2017) emphasizes the increase of inequality in post-war economic construction whilst Fischer (2006) urges the economic reform and political transformation in post-conflict society.

In addition, in economic recovery and reconstruction approach in the post-conflict situations, especially for stability and economic growth to take off, reconstruction is essential (Del Castillo, 2008). Agendas such as rebuilding physical infrastructure, resuming the provision of basic services, and promoting economic activity are all priorities for post-conflict economies. In the same light, Boyce (Boyce, 2011) also believe that resource mobilization to play essential role in post-conflict economic rise.

For economic progress to occur after a conflict, effective institutions are indispensable (Wolff, 2011). To foster an atmosphere that supports economic growth, institutions for the rule of law, good governance, and human rights protection must be established or rebuilt. Also noteworthy in this approach, as Pouligny (Pouligny, 2005) mention is to strengthen the existence of civil society, which in turn, can help building non-state institutions as well as performing check and balancing mechanism.

There are some other frameworks for post-conflict economic recovery. Sustainable post-conflict development requires inclusive economic policies that take the needs of marginalized or vulnerable communities into account (Drucza, 2017). Irvine (2018) says that resolving societal injustices can promote long-term peace and keep violence from resurfacing. Likewise, sustained economic development in post-conflict settings requires diversifying the economy and eschewing the dependence on industries associated to war. Promoting a wide variety of economic endeavors can both lessen susceptibility and increase resilience (Usman, 2022). Sectors such as tourism, creative industries and home business are keys to this economic diversification. Long-term stability and security can be aided by economic development, which in turn depends on a stable environment for economic activity to thrive in post-conflict areas.

In our paper, the existence of Sabang FTZ is of the main yet understudied topics of discussion in understanding the post-conflict peacebuilding dilemma in Aceh. This longprotracted conflict has attracted the interest of prior researchers to explore topics focusing on politics and economic development of post-conflict regions. Some studies highlight the need to link peacebuilding with elections in post-conflict settings (Ansori, 2012; Candelaria, 2020), democracy and post-conflict corruption (Le Billon, 2008), public administration and governance (Hillman, 2013), education policy (Shah & Lopes Cardozo, 2014), political parties (Reilly, 2013), local tradition involvement in transitional justice (Horne, 2014), local election

and campaign (Akmal et al., 2020), generic economic dimensions and autonomy (Phelps et al., 2011).

However, bar for few notable exceptions (i.e. Aspinall, 2009; Phelps et al., 2011; Sustikarini, 2019; Wennmann & Krause, 2009), the abovementioned studies did not focus on how the Free Trade Zone (FTZ) area is used as instruments in peacebuilding programs and post-war societies, especially in Aceh and Sabang, where FTZ arrangements were established after a conflict. In addition, none of the studies discussed earlier highlighted the mechanism of illegal cigarette quota in the Free Trade Zone Area in in Aceh and Sabang. To this end, the present study is expected to fill this gap by exploring the dynamics of illegal cigarette trading in post-conflict Sabang FTZ implementation.

B. Method

This study design employed grounded theory methodology in qualitative research. Research utilizing various data sets or a combination of data sets is suited for grounded theory (McNabb, 2020). The first few topics that this research focuses on are political situations in post-conflict regions, the phenomenon of contraband cigarettes, and economic progress.

The sampling technique used was purposive sampling by using snowball method, with the aim of finding informants who matched the criteria that we had determined. We chose a number of informants based on their involvement in the illicit cigarette trade at the Sabang Free Port in the province of Aceh. Additionally, because this phenomenon is unique, purposive sampling of informants who are directly involved in the issue is appropriate to find comprehensive data that answers the problem formulations. There are 11 informants we interviewed in this research, namely: Head of Regional Customs and Excise for Aceh Province.

Table 1. The research informants selected to be interviewed

No.	Companion Name	Task Section
1.	AS	Sabang BPKS officials
2.	HS	Local Security Forces/ PTSP Kawasan Bebas Sabang
3.	MI	Sabang FTZ Supervisory Board
4.	AL	Sabang Regional Government Representatives
5.	SS	Community Leaders / BAPPEDA Provinsi Aceh
6.	ZF	Tobacco Importers
7.	AY	Head of the Aceh Customs Office
8.	DN	Sabang Customs Officers
9.	TA	Revenue and Revenue Service Officials
10.	ZU	Youth and Regional Leaders in Sabang
11.	SF	The Provincial Information & Communication Service

Source: Primary data processed in 2018

In-depth interviews were the primary mode of data collection in this qualitative study design. An in-depth interview aims to gain a profound grasp of a phenomenon and the causes of specific problems (Goodman, 2001). The data was collected from May to November 2018 from Sabang's BPKS officials, police officers, supervisory boards of Sabang FTZ, local government representatives, community leaders, and tobacco importers. The stakeholders also include the head of the Aceh customs office, the Sabang customs officer, the income and revenue office officials, the youth and local leaders in Sabang, the province office of information and communication, and the Sabang members of parliament.

Notes from observations and field trips also supported the primary data (Phillippi & Lauderdale, 2018). The field trips were conducted twice. Additionally, in our reflection during the field trip, legal documents such as laws (, regulations (, *Qanun* (local regulation), reports, will be rewritten and regrouped by using a thematic data analysis.

This is particularly important for determining keywords and defining influential themes and main patterns from the study for triangulation purposes (Jonsen & Jehn, 2009). In the process, reading transcripts repeatedly helps gain a profound understanding to find provisional conclusions and interpretations or possible relationships.

C. Result and Discussion

1. Result

a. Sabang: From Ideal Political Instrument to Miss-Managed FTZ?

Sabang FTZ was initially used as a conflict resolution instrument, initiated during BJ Habibie's time as the Minister of Research and Technology in 1997 through his staff Prof. Dr Indroyono during the BPPT Research for Science and Technology Jamboree event in Gapang, Sabang Island. Finally, the Integrated Economic Development Zone (KAPET) of Sabang and Pulo Aceh was launched in 1998, strengthened by Law 37 of 2000 stipulating Sabang as an FTZ. It was expected that people would stop fighting, and thus, the disappointment and criminality could be minimized. In the interview session, AS, an officer from the Management and Development Agency, stated:

"Sabang is a model to encourage the economic growth in Aceh. The spirit is that industrialization will start from here. So, if industrialization is there, people don't need to fight anymore, they won't carry weapons anymore, people will work" (personal communication, November 16, 2018).

From the analysis that follows, it is argued that the once-famous ideal political instrument prepared to revive the economic development of the northernmost island of Indonesia following the long-protracted conflict in Aceh since 2000 has not paid off. Today, after heavy GoI investment, especially in infrastructure within the last two decades, the so-called "zero kilometer" Sabang FTZ strategic location cannot live up to the expectations due to its mostly mismanaged coordination and political dealings with the local government through BPKS. AS, a BPKS official admitted that:

"Indeed, there is a problem with the top officials and management. You know the changes of officials and management, which seems to be normal here now. There were too many politics in the bureaucracy and management. So does the lack of stability. Sometimes one has barely started to work before then being replaced by the new managers. This also leads to the change of coordinative actions" (personal communication, November 16, 2018).

Some argue that the lack of sufficient and capable human resources is the major obstacle for Sabang FTZ enforcement. The Nigerian FTZ's failure to achieve its objective, according to the data analysis shown by Ezike, Ukemenam, and Chijioke (2019), may come to terms with what we have seen here in Sabang FTZ. They said that the country is not diversified in exports, relying on oil and gas production alone. They are struggling to be more competitive without expanding their export strengths (Zaafraane & Mahjoub, 2000). In the same light, MI reiterates:

"In my observation, since 2000, no economic recovery has been made. Of course, we can see some minor improvements in tourism sector. I think, we need to encourage the investment office to actively engage in the process. We need good coordination, including from customs and its documents-wise arrangement; and we seriously need good human resources to manage this" (personal communication, November 16, 2018).

Regardless of Sabang FTZ's duty-free status, BPKS management was not, for the most part, effective in attracting investment. On the one hand, in the tourism sector, foreign owners decided to channel their money via local business people or citizens to avoid taxes. On the other hand, non-tourism sectors like industries and export-import activities were not particularly promising due to their lack of support, planning and overlapping regulation. As stated by ZU, a youth leader and well-known figure in Sabang:

"To inspect, for example, the sugar factory in Sabang or specific food production Sabang-FTZ, we have BPPOM (National Agency of Drug and Food Control). It is a national standard. So does quarantine regulation. It belongs to the custom office. But we don't really have regulations that may attract investment. They all have to comply with the abovementioned national standard from BPPOM, the customs etc., whereas most local importers only have relatively small ship made of wood" (personal communication, November 21, 2018).

Further disappointment in managing Sabang FTZ is reflected by Participant AL's skepticism of the individual's ability to organize workable coordinative mechanisms between key stakeholders:

"Honestly, for goods imported to Sabang via BPKS, they only gave us short notice. So, we, as security officials, cannot fully respond to the problem. We can only supervise from afar; we oversee the number of the imported items. BPKS thinks that this is their mandate, their exclusive right. I think they are going backward with their management style, by snubbing other regulations. No coordination. If any. It is very minimum. This is the problem" (personal communication, November 21, 2018).

The overall environment did not benefit the economy of Sabang FTZ. Local-level managerial standoffs with critical stakeholders and concurring political stalemate between the local governments and the national government's inattentiveness have led to slower response and conflicting roles. As another view are expressed by AL below:

"But if we carefully measure the direct benefit towards the improvement of Sabang economic events and activities, it is far - very far from our expectation in Sabang. If we talk about scaling 1 to 10, I would give score 2. So poor" (personal communication, November 21, 2018).

An almost similar tone to that read in Sabang FTZ's less-coordinated case between policymakers and stakeholders is voiced by SF, Aceh Provincial Communication and Information Office, below:

"In this regard, we just received official letter from the General Director of Customs Office in Aceh, offering a joined campaign on liquid for electronic cigarette refill procedure. We immediately contacted them for the content to be published in our banners, no answer. We are ready, but they did nothing until now" (personal communication, November 12, 2018).

A Dilemmatic Perspective: Between Aceh and Jakarta

To understand Aceh, including the management of BPKS, we must try to oversee this within the following three perspectives. First, from Jakarta's perspective, the case of Sabang FTZ and Aceh is very much related to how the central government perceives Aceh as one of the most important parts of the republic amidst its long history of conflict. The second is the Acehnese perspective. It is when both the Aceh government and Acehnese view the role of the central government, its intervention, and its seriousness in managing the Aceh conflict as a strategically located asset in the region. The third is the development perspective. It is how the government and the people of Aceh and the central government in Jakarta agree on mutual benefits and forget the conflict behind them. This development perspective is the bridge to the progress of Aceh and Indonesia in general, and collaboration between Aceh and Jakarta is the key to achieving that.

The Aceh Perspective: Blaming Jakarta, Asking for more Freedom

Of course, while stakeholders in Sabang FTZ are in dire need of good coordination, one can point the finger and blame the national government for not being serious in helping Aceh and Sabang FTZ, as voiced by the following reproach from a parliament member in Sabang:

“BPKS has a non-department status. But they are under the supervision of Financial Ministry in term of budgeting. But then, because they are located in Aceh, they are also reporting to the Governor of Aceh. The Governor of Aceh, in this case, is the representative of the ministry in Aceh. In certain contexts, we can say that the national government did not pay serious attention towards BPKS and Aceh, because this is merely for the locals, for the Acehnese. If we look at Batam FTZ, the chair person and the supervisory board is a minister. They have direct involvement, including staff placement, setting the national standard. Because Sabang FTZ in Aceh is under the governor, so does the standard, local standard. No matter what, we could say that Sabang FTZ is coming with national standard, but with local taste. Roughly speaking, this is only a political compensation” (AL, personal communication, November 21, 2018).

Similarly, Sabang's FTZ and BPKS capacity to provide goods or commodities needed by these cruise ships and vessels is still limited due to the following concerns:

“Our problem is twofold. First we have regulation, but we do not have the power and authority yet. Second we need more time to build the infrastructure and facility as well as to be able to implement, according the Regulation No.37, the so-called public private partnership” (AS, personal communication, November 16, 2018).

Likewise, for instance, the BPKS, the coordinator of the area of Sabang FTZ, always assumes that their responsibility is only limited to licensing services, while supervision is not their focus.

“Supervision is the domain of customs, but what we are able to control is the permits, the licensing services. We see it based on the actual need. So, the control is there, the supervision responsibility is shared, though the customs has the main responsibility, and so is the cigarette quota” (AS, personal communication, November 16, 2018).

The Jakarta Perspective: Focusing on Preventive Approach

On the other hand, the customs and excise office, part of the management team in Sabang, considers that the supervisory role must be prioritised. They believe that supervision in Sabang FTZ is needed to avoid state financial losses from the distribution of goods without excise and taxes, including illegal cigarettes. Therefore, customs work's in a preventive scheme:

“The dilemma is that the Customs work in preventing scheme, whilst BPKS only cares about licensing and controlling documents in the view of getting more and more quota to boost the economic activities” (DN, personal communication, November 22, 2018).

In the same light, the focus on supervision can clearly be seen in the following comments from one of their officials in Sabang FTZ:

“We have tried to coordinate with BPKS regarding the quota mechanism, as we realized that we have to strengthen the control and supervision instrument to watch over the financial revenue target. If the given quota is big, then we should tighten the supervisory system because it could cause severe financial loss” (HS, personal communication, November 16, 2018).

Preventive control and supervision are needed. The Customs office believes that restrictions on the manipulation and embezzlement of the law by some corrupt officials and private sectors must also be handled. On that account, the Customs anticipates potential state financial state, especially on goods distributed outside Sabang (to mainland Aceh) and goods that do not adhere to the regulations outlined within the development plan of Sabang and Aceh in general, as stated by an official from Aceh Provincial Customs Office:

“...maybe later you can check all the quota documents, for example, the quota policy, we almost do not find a correlation between the items that are imported, whether the items for the development of Aceh and Sabang or for consumption purposes. And most consumer goods imported to Sabang are not matched with the development blueprint of Sabang itself which has been appointed as the industrial zone. Even if it is consumer goods, it must be used as production materials for industry. The problem is that we don't have the industry just yet and it needs to be built first” (AL, personal communication, November 21, 2018).

b. Illegal Cigarettes: Mechanisms for Quotas Determination and Surveillance Systems

In the scope of an FTZ framework, the existence of imported goods becomes one of the focal points. For FTZ, which prioritizes strategic planning in the tourism sector, the

availability of goods will be more dominant. Moreover, the Sabang FTZ is currently less optimal in providing tourists' needs and goods and building its core tourism industries. Therefore, the imported goods are mainly sugar, rice, cigarettes, and others.

"In the last two years, sugar and cigarettes are the most imported items to Sabang" (ZF, personal communication, November 15, 2018).

In this light, the mechanism of cigarettes entering Sabang FTZ is divided into three main sources.

"This is regulated in PMK No. 47 of 2012 that are several instruments to control the traffic of goods. Legally speaking, cigarette quota import mechanism is regulated in Ministry of Finance Regulation No.47. 2012, coming from three sources. From abroad, from other customs areas, such as Banda Aceh, Sidoarjo, Malang and others, and from other FTZ, such as Batam, Karimun and Bintan" (TA, personal communication, November 19, 2018).

Currently, Sabang FTZ has regulated the procedures and provisions for importing goods, which are regulated in the Decree of the Head of the BPKS Number: 9/BPKS/2001. However, the regulations have not been detailed enough in outlining the quota. In an interview with the Supervision Customs and Excise officer, he says:

"Regarding the quota, the BPKS is allowed to arrange the quota. Meanwhile Customs determines the number and the type of goods that are imported. And the Customs refers to PMK 7 where the basis is on PP No.10/2012" (AY, personal communication, October 25, 2018).

The issue of the imported quota at Sabang FTZ will be technically regulated in the form of the BPKS Regulation. This regulation will provide the arrangement for each item differently. Thus far, the regulation on quota decision in 2015 only regulates the import of sugar as stated in Regulation Number 11 from the Head of BPKS. Whereas for other trading items, the importers' requests will be used to reference the quota decision, including on cigarettes. This is what the one-stop integrated service officer (PTSP) BPKS described in the following statement:

"Basically, cigarettes (quota) have not been regulated yet, so it depends on the proposal from the importers. For example, there were cigarettes imported from Malang (East Java). There were around 250 cartons as requested by importers" (TA, personal communication, November 19, 2018).

Several sources from the BPKS stressed that licensing and quota regulation of goods entering the Sabang FTZ could not be determined only by considering the number of Sabang residents and the number of tourists but must also consider the number of visits.

"The number of visits in this case referred as visits aimed at tourism, business purposes and social purposes" (TH, personal communication, November 5, 2018).

It means that importers and the BPKS are the main actors in determining the import of cigarettes to the area of Sabang FTZ. The procedure is started with an offer made by the importer related to the quota of cigarettes. Then, after initial review, the BPKS issues permits with a certain quota in response to importers' requests, although the BPKS does not have any official written regulations on cigarettes. Therefore, the quantity of cigarettes entering the Sabang FTZ depends on the recommendations from importers. Before 2018, there was only one cigarette importer, but in 2018, there was another company importing cigarettes to Sabang. The increase is caused by the assumption that cigarettes are a potential commodity and that demand is increasing in Sabang. This is as explained by one of the cigarette importers in Sabang:

“The demand of cigarettes in Sabang is usually high. You know, the price is cheaper here than in other places. The price is three times cheaper than the price of cigarettes in general. We, the importers are the traders, so we do not consider and pay attention on the distribution of these cigarettes outside Sabang, because that is a responsibility of Customs. Our focus is on how many cigarettes that we can get into Sabang and can be sold to the trader or consumer. We are also not responsible for cigarettes distribution outside the Sabang. Those who smuggle it out should be responsible for it. Not us” (SF, personal communication, November 12, 2018).

Table 2. The list of cigarette brands imported to Sabang FTZ

No.	Brand	Type	Quota
1.	Rexo	16 white cigarettes & 20 clove cigarette	250 Cartons
2.	Spesial	Machined made clove cigarette	270 Cartons

Source: Primary data processed in 2018

According to data from PTSP (One-Stop Integrated Service Office) of BPKS, the requests for the cigarettes by the two companies were 250 boxes of Rexo from Malang and 270 boxes of Special from Sidoarjo in November 2018. Both brands were transported by land from East Java and dropped off at Sabang by ferry through the Port.

In addition to those two brands, another brand from Singapore, called “Manchester,” was imported to Sabang by ship. This brand was rejected because there was no “Free Trade Zone” label on the product. Regarding the packaging of goods in the FTZ area, two mechanisms can be packaged in the production area or the destination country. Firstly, if it is packaged in the production area, in this case the packaging must have been labelled as “Sabang Free Trade Zone”. Secondly, if it is packaged in the destination country, this can be done in two ways. 1) The ships or trucks only supply the raw materials and packaging materials, but the packaging process takes place in Sabang. 2) If the packaging process takes place in other customs areas, then 60 days are given for the process. “Manchester” brand cigarettes were re-exported to Singapore because the importer could not do the repackaging process within the time frame due to financial limitations and equipment availability.

The fact that cigarettes are the second most dominant item in the Sabang Free Zone is likely caused by several things. First, the quota of cigarettes is not explicitly regulated. Second, there is no rationality in categorising regulated and non-consumer goods. When the cigarette is considered the customer's good, there must be an ideal quota arrangement. Similarly, if it is good for non-customers, then the ideal arrangement and the quota should also be prepared. Third, the current BPKS intention behind the establishment of the Sabang FTZ is understood to be to develop the tourism sector, where consumption calculations estimation includes the number of tourist visits from non-Acehnese or non-Indonesian visitors and the number of social visits from Sabang local community from and to Sabang within the province of Aceh. Fourth, the "Special" brand cigarette from Sidoarjo has become the favourite in Sabang and Aceh because of its taste, attracting more buyers.

Given the earlier facts, the government officially revokes the excise-free facility for excisable goods in the free trade zone (FTZ), starting May 17, 2019. Responding to this policy, BPKS added that they did not want to participate in the revocation policy of cigarette excise exemptions by GoI, insisting that Sabang FTZ is special, unlike other FTZ areas. As a result, on that official date, the government will not be in charge of handling the Free Trade Zone (CK) Excise Document-FTZ. In response to the policy, the following is an explanation from a BPKS officer:

"We will try to discuss it with the Ministry of Finance, because the birth of FTZ in Sabang is different from FTZ in other regions. FTZ in Sabang has a long history and struggle, namely the Aceh conflict (SS)" (SS, personal communication, December 13, 2018).

2. Discussion

In 2002, economic activities in Sabang had improved along with the entry of imported goods from abroad. However, the imposition of martial law in 2003 brought the economic accomplishments back to a downturn in 2004. Having the geographical advantage position, Sabang FTZ should ideally be able to become a new gateway for investment in goods and services from abroad. Sabang is becoming increasingly important because it is the only in-country free-port and free-trade zone in Indonesia that has been legalized under Law No. 2 of 2000, which has been subsequently stipulated as Law No. 37 of 2000, and Law No. 11 of 2006, concerning The Local Government of Aceh (LoGA).

To implement Law No. 37 of 2000, the government has established the Sabang Regional Council (DKS) and the Sabang Management and Development Agency (BPKS). The Governor of Aceh Province, the Regent of Aceh Besar District, and the Major of Sabang are the members of DKS. BPKS is responsible for managing, developing, and building the area of Sabang FTZ. According to the law, BPKS is authorized to grant business permits in Sabang. In addition, BPKS is also authorized to conduct guidance or coaching and integration of policies with the Aceh Provincial Government and other regencies/cities across Aceh.

Furthermore, the exclusive right to manage the Sabang area is also one important point outlined in a memorandum of understanding (The “Helsinki MoU”) between GoI and GAM in 2015. It is one strong rationale for the formation of the Sabang FTZ. And then UUPA No. 11 of 2006, also derived from the Helsinki MoU Articles 4, 167, 168, 169, and 170, describes Sabang as a Free-Port and Free-Trade Area. Article 4 mentions the general rules mechanisms and autonomy for the Aceh government; both provincial and district/city, to form a special area after obtaining approval from the parliament at the provincial level (DPRA) and parliament at the district/cities level (DPRK). Then in Article 167 to Article 170, the Sabang Free Port and Free Trade Area are specifically discussed. According to BPKS, as outlined in the 2006 Master Plan, the management of the Sabang area is focusing on four main aspects: deep sea, tourism, fisheries, and trade. In this light, BPKS provides supporting infrastructure for these four aspects, especially in tourism sector.

Technically speaking, as the chairperson of the DKS, the governor has issued several governor regulations related to the position, duties, functions, authority, structure, and organization of BPKS. One of the regulations is the Decree of DKS Chairperson No. 17/2014 concerning the Organization and Working Procedure of BPKS. There are some important points outlined in this regulation, such as the authority to make rules, business licenses, investment permits, and control of export-import activities, etc., by cooperating with government officials to launch the inspection and other types of joint-supervision.

However, there is a dilematic perspective between Aceh and Jakarta in post-conflict economic development. This voice is again echoed in concern about BPKS’s inability to pair with the national government's policymaking and lack of attention for Sabang FTZ. In reality, and also because Sabang FTZ was once designed as a political instrument for the separatist movement, some accused crooked officers are merely taking advantage of the peace agreement and exploiting its political economy aspect. As a result, they are not focusing solely on the economic development aspect, something which is also familiar in several post-conflict societies across the globe (Haass & Ottmann, 2017).

The policy is taken by BPKS in a more aggressive-exclusive approach (sometimes the coordination with other elements is very minimal) through stimuli and rationalization to boost the local community’s economic growth, particularly in a post-conflict setting. For example, the BPKS argues that the quota of goods released cannot rely solely on the demand and supply of the goods but must also depend on the other aspects. Those aspects include the mobility of people from the mainland Aceh to Sabang and vice versa, the availability of infrastructure to increase “economic activity”, and eventually provide the multiplier economic effect of trading activities.

The development perspective has not been noticed and focused on. It means only the first and second viewpoints are more visible to all parties involved, whereas this aspect went unnoticed and remains implicitly undetected. Our reading on this point is proven by the different understanding between the parties involved in the management of the Sabang area, both from the local government, in this case, the BPKS, and from the central government

elements, represented by the Customs and Excise Office. Although BPKS and the Customs Office both comply with the Ministry of Finance regulations, the two parties have different interpretations of the legal-operational framework. This has caused regulatory loopholes that have made the management of Sabang's area considered unsuccessful.

Lessons learnt from several FTZ, for example, the Shanghai FTZ has made it clear that the old and outdated traditional approach of FTZ is no longer viable, as ports and harbours in the fourth-generation FTZ have transformed into value-added services and centres for commodity, capital, and information flow (Wan et al., 2014). The case of the Dominican Republic FTZ has also shown that the development perspective was put into place when fostering economic growth was the top priority of the FTZ administration (Wagner, 2017). Manaus FTZ in Brazil also showcased a similar instance. Gradually, improvement in poverty declined in the first decade of the FTZ's inception, which has become the key to the sustainable economic development of similar FTZ cases (Castilho et al., 2019).

Futhermore, a free-trade zone like Sabang is subject to potential illegal cigarette smuggling due to lower prices and lower tax charges (Bate et al., 2020; Joossens & Raw, 1998). In China, for example, they produce fake brand cigarettes to be distributed across Asian and European countries (Joossens & Raw, 2012). But what happened in Sabang is a repercussion of the same case in Russia. Illegal cigarette trading takes place in a free zone or port area with minimum supervision from customs (Cortés-Ramos et al., 2021). In this study, the terms "illegal cigarettes" refer to the distribution of plain cigarettes without excise and the distribution of cigarettes in the free area (Free Trade Zone/FTZ) to other areas outside Sabang FTZ through seaports (Syahputra & Edoorita, 2016).

Several items related to tobacco consumption need to be controlled, and their distribution needs to be monitored as they will cause negative impacts on society or the environment. Taxation needs to be imposed for justice and balance on these items. In this case, cigarettes are one of the items subject to excise. To avoid excise, some of these cigarettes are traded illegally. Here are some examples:

1. Cigarettes without excise tapes
2. Cigarettes with fabricated excise tapes
3. Cigarettes attached to used excise tapes
4. Cigarettes attached to non-right excise tapes
5. Cigarettes attached to excise tape which does not serve its purposes.
6. Cigarettes labelled as Free Zone distributions items but distributes to other areas

The threat from these illegal cigarettes comes from two principles (Joossens & Raw, 1998):

5. Smuggling causes the availability of cigarettes at lower prices, thereby increasing the consumption of cigarettes and the burden of financing public health insurance for the country.

6. The tobacco industry will use “smuggling” politically by lobbying the government to reduce taxes because price differences will open up more significant opportunities for smuggling.

The dilemma of implementing the free trade zone is the distribution of goods outside the designated FTZ, in this case, the illegal cigarette trade and distribution. It means that Sabang FTZ is detached from (normal) Indonesian customary law, i.e., the trading system, the burden of import duties, value-added tax, and sales tax on luxury goods. In several countries, the number of illegal cigarettes increased due to high regulation and excise on the legal cigarette, as happened in Europe, for example.

The general demand-supply features cause the increasing number of illegal cigarette distributions. The case in Poland can be taken as an example whereby the government imposed a law to raise the price of cigarettes, which caused the consumption of cigarettes from the black market to continue to escalate. The black market is organized by big companies that try to avoid taxes illegally. These companies smuggle their products at a lower price into certain market sub-groups (Ciecierski, 2007). The Sabang FTZ experiences the same situation. The demand for cigarettes increases to cope with high cigarette taxes, increasing the illegal cigarette supply. Such a situation is worsened because the Sabang FTZ is experiencing some other obstacles. The setback lies in the development focus. Initially, the focus was on developing the port sector, but currently, the focus is more on the tourism sector.

Knowing that the port sector is not optimal, the BPKS currently has a new priority that focuses more on the tourism sector. This change is influenced by the potential of the underwater beauty of Sabang. The shift in focus has a major effect on importers of consumer goods and indirectly impacts the number of goods imported to the Sabang FTZ.

Moreover, the BPKS and its key stakeholders must regulate and define what is considered consumer goods, especially for Sabang FTZ, which is currently focusing on its revenue sources from the tourism sector. Therefore, the definition of the customers' hand luggage goods that can be transported from FTZ is more precise, including in the case of cigarette distribution outside FTZ.

All those things mentioned above will impact the distribution of cigarettes from the Sabang FTZ to other customs areas like the capital city of Banda Aceh Municipality and Aceh Besar District. Therefore, BPKS needs to regulate the detailed and specific quota arrangement for all types of goods entering the Sabang Free Zone, as mandated since 2000 through Law No. 37 of 2000 and Government Regulation No. 83 of 2010. The delay or the absence of specific arrangements regarding the quota of goods through the regulation of the head of the BPKS will be the main challenge. The challenge is to the commitment of BPKS management, though. Not to mention that Sabang FTZ status was officially enacted in 2000, but until 2018 only one regulation has been regulated on the quota of goods, and it is for sugar.

Considering its strategic position, the Sabang FTZ has to be appropriately managed. This can be achieved by increasing the management's competence in controlling illegal trading by means of technology (L. Joossens & Raw, 1998). Moreover, there must be clear

regulations on cigarettes to determine their legal position through the packaging of cigarettes by identifying: their tax stamps, health warnings, tar labels, nicotine and CO, brand names and prices (Ciecierski, 2007).

Hence, the most important thing for the government to do is to track and monitor illegal cigarette trading activities. For example, it is advisable to adopt a tracking system to limit the illegal cigarette trade as practiced in Georgia, which is stated in the WHO Framework Convention for Tobacco Control (FCTC) protocol for eliminating the trade in illegal tobacco products (Paraje et al., 2022), streamlining tax administration and supply chain controls (Mengesha & Ross, 2023), as well as effective enforcement of supply chains (Szklo & Drope, 2023). Even policies to minimize the circulation of illegal cigarettes require a differential approach based on local characteristics (Maldonado et al., 2020), such as in the case of Sabang Free Trade Zone in Aceh

D. Conclusion

To sum up, the exploration of the in-country free trade zone (FTZ) in post-conflict Aceh, with a focus on the illegal cigarette trade in Sabang, Indonesia, accentuates the unique challenges faced by regions transitioning from conflict to peace. The study reveals how the establishment of free trade zones, while designed to stimulate economic growth, can inadvertently create opportunities for illicit activities, particularly in the context of a post-conflict environment.

The Sabang FTZ, which initially acted as compensation for the conflict in Aceh, has more complicated challenges in its implementation. However, Sabang FTZ, as a particular area, has become fundamental in the overall development of post-conflict Aceh. We found that Sabang FTZ still has its potential amidst serious mismanagement and lack of coordination attempts by the key stakeholders. The political elite's failure of Sabang FTZ's management has made way for some side effects, such as the practice of illegal cigarette distribution outside the FTZ area.

This Sabang FTZ has seen an intensified illegal tobacco trade outside Sabang in the built-up. In general, the distribution of illegal cigarette trade has worsened public health and economic conditions. By all means, illegal cigarettes are harming two components at once. First, the state loses on the revenue, and second, the society loses on general public health.

The case of illegal cigarette trade in Sabang exemplifies the need for targeted strategies that address the specific dynamics of post-conflict economies. Mitigating this challenge requires a comprehensive approach that combines efforts to enhance regulatory oversight, strengthen institutions, and foster sustainable economic development. Lessons drawn from this study can inform policymakers and practitioners engaged in post-conflict recovery, offering valuable insights into the complexities of in-country free trade zones and the imperative of implementing measures to ensure that economic growth aligns with legal and ethical standards. Ultimately, addressing the issue of illegal cigarette trade in Sabang serves as a miniature for the broader task of achieving economic stability and resilience in post-

conflict regions, demonstrating the importance of tailored and context-specific interventions for sustainable peace and development. In the same light, this could become direct policy recommendations and lessons learned on illegal cigarette trade in Indonesia and other post-conflict countries and free trade zones of neighboring countries, such as Malaysia, Thailand, Singapore, and The Philippines.

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