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**In-Country Free Trade Zone in Post-Conflict Aceh:
Illegal Cigarette Trade in Sabang, Indonesia**

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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 exacerbates state financial losses, community health problems, and the workload on customs to conduct control and supervision. This qualitative study aims to explore how the Free-Trade Zone in Sabang was managed as an instrument for political concession in the Aceh conflict and its quota decision mechanism on illegal cigarettes. Using a grounded qualitative research design, we conducted 12 in-depth interviews with key stakeholders. Four important findings are reflected in this study. First, the management of the Sabang-Free Trade Zone is highly influenced by political aspects and a lack of managerial competence. Second, there is a dilemmatic perspective of the conflicting parties regarding the Sabang FTZ. Third, the quota mechanism related to the distribution of imported cigarettes is not regulated and merely relies on importers' requests. Lastly, the control and supervision system at the Sabang FTZ is weak. These findings are expected to serve as the foundation for policy recommendations and lessons on the illegal cigarette trade in Indonesia and other post-conflict countries, as well as free trade zones in neighbouring 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, located at the convergence of the Malacca Strait and the Indian Ocean, holds a strategically significant economic position in Indonesia. This region experienced a prolonged conflict that caused financial losses and other harm to both Indonesia and the Acehnese people (Baikoeni & Oishi, 2016; Schiller, 2011). Numerous factors contributed to the protracted conflict in Aceh, including disagreements over structural politics and democracy (Jemadu, 2004), natural resource 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).

The conflict between the Government of Indonesia (GoI) and the *Gerakan Aceh Merdeka* (GAM), or Free Aceh Movement, began on December 4, 1976, marked by the establishment of the movement (Schulze, 2006). The perceived injustice of the central government fuelled the demand for Aceh's independence from the Republic of Indonesia (Waizenegger & Hyndman, 2010). During the conflict, Aceh experienced significant physical and economic deterioration (McCarthy, 2007). On December 26, 2004, a massive earthquake and tsunami struck Aceh. Following this disaster, the GoI and GAM agreed to initiate another round of peace talks with Aceh (Ahtisaari, 2008; Husain et al., 2007).

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

To prevent conflict in Aceh and other conflict-prone regions in Indonesia, several initiatives were undertaken during the administration of



President Abdurrahman Wahid (Niksch, 2001). One such initiative granted Aceh greater autonomy and the authority to establish a free-trade zone (FTZ) in Sabang (Reid, 2004). The regulation of Sabang as a free-trade area and free port is outlined in Law No. 37/2000 by the Indonesian Ministry of Justice, Law and Human Rights.

This means that goods imported to and exported from Sabang are free from tax and excise rates. Since 2000, this arrangement has significantly increased the cigarette trade. The tax-free imported cigarettes are sold at lower prices, leading to an intensified illegal sale from Sabang to other customs zones, particularly in the coastal regions of Banda Aceh's capital city and its neighbouring district, Aceh Besar.

The circulation of illegal cigarettes fluctuates in Indonesia (Kasri et al., 2021). In 2007 alone, 19 billion illegal cigarettes were recorded in circulation, compared to 14 billion in 2013. However, the highest figure ever recorded was in 2018, with 59 billion illegal cigarettes on the market. Similarly, the highest levels of illegal cigarette consumption also occurred in 2018, at 19%. These high levels of unauthorized cigarette circulation and consumption have contributed to estimated state revenue losses ranging from 24.2 million to 42.0 trillion IDR, corresponding to cigarette tax revenues of 15.8% to 27.5% in 2018. In the case of Aceh, the distribution of illegal cigarettes is notably high. During a Combat Operation by Aceh Customs and Excise in 2018, 390,505 illegal cigarettes were found in several ports in Aceh (Writer, 2018), including the Sabang FTZ.

The phenomenon related to the distribution of illegal cigarettes is often linked to increases in in-country tobacco taxes. However, several studies state that there is no direct link between the distribution of unauthorized cigarettes and increases in tobacco taxes (Lavares et al., 2022; Little et al., 2020, 2021; Liutkutè-Gumarov et al., 2020; Nguyen et al., 2020; Van Der Zee et al., 2020). These studies indicated that various factors contribute to the increase in 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 (Liutkutè-Gumarov et al., 2020; Van Der Zee et al., 2020).

However, illegal cigarette trading within FTZs 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.

In our paper, the existence of the Sabang FTZ is one of the central yet understudied topics of discussion in understanding the post-conflict peacebuilding dilemma in Aceh. This long-protracted conflict has attracted the interest of prior researchers to explore topics focusing on the 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 elections and campaigns (Akmal et al., 2020), and generic economic dimensions and autonomy (Phelps et al., 2011).

However, with few notable exceptions (i.e. Aspinall, 2009; Phelps et al., 2011; Sustikarini, 2019; Wennmann & Krause, 2009), the studies as mentioned earlier do not focus on how FTZ arrangements were established after a conflict. Additionally, none of the studies discussed earlier highlighted the mechanism of illegal cigarette quotas in the FTZ area in Aceh and Sabang. To this end, the present study aims to fill this gap by exploring the dynamics of illegal cigarette trading in the post-conflict implementation of the Sabang FTZ.

B. Method

This study employed a grounded theory methodology in qualitative research. Research utilizing various data sets or a combination of data sets is

well-suited for grounded theory (McNabb, 2020). The initial 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 with the snowball method to find informants who matched our determined criteria. We selected informants based on their involvement in the illicit cigarette trade at the Sabang FTZ in Aceh.

In-depth interviews were the primary mode of data collection in this qualitative study. An in-depth interview aims to gain a profound understanding of a phenomenon and the causes of specific problems (Goodman, 2001). We used in-depth interviews to answer our two main research questions: how Sabang FTZ management was used as a political instrument in post-conflict Aceh and how the exclusive cigarette quota mechanism was regulated in the Sabang FTZ.

We interviewed 11 informants, as listed in the following table.

Table 1. Research informants selected for interviews

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 De- 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 & Communicatic Service

Source: Primary data processed

Notes from observations and field trips also supported the primary data (Phillippi & Lauderdale, 2018). The field trips were conducted twice. Additionally, during our reflection on the field trips, legal documents such as Law No.2/2000, Law No.37/2000, MoU Helsinki/2005, and Law No.11/2006

were rewritten and regrouped using thematic data analysis. This approach is essential for determining keywords and defining influential themes and main patterns from the study for triangulation purposes (Jonsen & Jehn, 2009). In the process, repeatedly reading transcripts helps gain a profound understanding of finding provisional conclusions and interpretations or possible relationships.

C. Result and Discussion

This study focuses on the dynamics of illegal cigarette trade within the context of the Sabang Free Trade Zone, which has been established as a post-conflict political instrument in Aceh. The findings from this study not only provide insights into the ineffective management of the Free Trade Zone but also highlight the significant challenges in existing supervision and regulation. With a deep understanding of this context, we will delve further into the important findings that emerged from data collected through in-depth interviews and field observations.

1. Result

a. Sabang: from ideal political instrument to mismanaged FTZ?

The Sabang FTZ was initially used as a conflict resolution instrument. People were expected to stop fighting, and thus, the disappointment and criminality could be minimized. During an interview, AS, an officer from the Management and Development Agency, stated.

Sabang is a model to encourage 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.

From the following analysis, it is argued that the once-famous ideal political instrument prepared to revive the economic development of Indonesia's northernmost island following the long-protracted conflict in Aceh since 2000 has not paid off. Today, after significant GoI investment, especially in infrastructure over the last two decades, the so-called "zero kilometre" Sabang FTZ strategic location cannot live up to the expectations

due to its mostly mismanaged coordination and political dealings through BPKS. AS, a BPKS official, admitted.

Indeed, there is a problem with the top officials and management. You know, the changes in officials and management seem to be normal. 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 manager. This also leads to a change of coordinative actions.

Regardless of Sabang FTZ's duty-free status, BPKS management was not, for the most part, effective in attracting investment. 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, such as industries and export-import activities, were not particularly promising due to their lack of support, planning, and overlapping regulations. 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 customs office. But we don't really have regulations that may attract investment. They all have to comply with the abovementioned national standards from BPPOM, customs, etc., whereas most local importers only have relatively small ships made of wood.

Further disappointment in managing Sabang FTZ is reflected in Participant AL's scepticism regarding the 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 imported items. BPKS thinks that this is their mandate, their exclusive right. I think they are going backwards with their management style by snubbing other regulations. No coordination. If any. It is very minimal. This is the problem.

The overall environment did not benefit the economy of the Sabang FTZ. Local-level managerial standoffs with critical stakeholders and ongoing political stalemate between the local and national government's



inattentiveness have led to slower responses and conflicting roles. This view is 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 expectations in Sabang. If we talk about scaling from 1 to 10, I would give a score of 2. So poor.

A similar tone regarding the lack of coordination in the Sabang FTZ case between policymakers and stakeholders is voiced by SF from the Aceh Provincial Communication and Information Office.

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

To understand the management of BPKS, we must examine it from the following three perspectives. First, from Jakarta's perspective, the Sabang FTZ and Aceh case is closely related to how the central government perceives Aceh as one of the most significant parts of the republic, given its long history of conflict. Second, from the Acehnese perspective, both the Aceh government and the Acehnese people view the central government's role, its intervention, and its seriousness in managing the Aceh conflict as a strategically located asset in the region. Third, from the development perspective, it is how the government and the people of Aceh, along with the central government in Jakarta, agree on mutual benefits and leave the conflict behind them. This development perspective is the bridge to the progress of Aceh and Indonesia in general, and partnership between Aceh and Jakarta is the key to achieving that.

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

In certain contexts, we can say that the national government did not pay serious attention to BPKS and Aceh because this is merely for the locals, the



Acehnese. Sabang FTZ in Aceh is under the governor, and so is the standard, local standard. No matter what, we could say that Sabang FTZ comes with national standards but with local taste. Roughly speaking, this is only a political compensation.

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

Our problem is twofold. First, we have regulation, but we do not have the power and authority. Second, we need more time to build the infrastructure and facility and to implement it. This is according to Regulation No.37, the so-called public-private partnership.

Likewise, for instance, the BPKS, the coordinator of the Sabang FTZ area, always assumes that their responsibility is 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 and licensing services. We see it based on the actual need. Therefore, the control is there, the supervision responsibility is shared, though the customs have the main responsibility, and so is the cigarette quota.

In contrast, the Customs and Excise office considers that the supervisory role must be prioritised. They believe that supervision in Sabang FTZ is necessary to avoid state financial losses from the distribution of goods without excise and taxes, including illegal cigarettes. Therefore, DN proposed that customs work in a preventive scheme:

The dilemma is that the Customs works in preventing schemes, whilst BPKS only cares about licensing and controlling documents in the view of getting more and more quotas to boost the economic activities.

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 addressed. On that account, the Customs anticipates potential state financial losses, especially concerning goods distributed outside Sabang (to mainland Aceh) and goods that do not adhere to the regulations outlined in the development plan of



Sabang and Aceh in general, as stated by AL, an official from the Aceh Provincial Customs Office:

Maybe later you can check all the quota policies. We almost do not find a correlation between the items that are imported, whether the items are for the development of Aceh and Sabang or for consumption purposes. Most consumer goods imported to Sabang are not matched with the development blueprint of Sabang itself which has been appointed as the industrial zone. The problem is that we don't have the industry just yet and it needs to be built first.

b. Illegal cigarettes: mechanisms for quotas determination and surveillance systems

Within an FTZ framework, the presence of imported goods becomes a focal point. With a strategic focus on the tourism sector, the availability of goods becomes even more crucial. However, ZF noted that the Sabang FTZ is currently less than optimal in providing for tourists' needs and goods and building its core tourism industries.

In the last two years, sugar and cigarettes have been the most imported items to Sabang.

In this light, TA proposed that the mechanism for cigarettes entering the Sabang FTZ is divided into three primary sources.

The 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.

The Sabang FTZ has established procedures and provisions for importing goods, as regulated in the Decree of the Head of the BPKS Number: 9/BPKS/2001. However, the regulations are not detailed enough in outlining the quota. In an interview, Supervision Customs and Excise officer AY says:

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

The issue of the imported quota at the Sabang FTZ will be technically regulated through a BPKS Regulation. This regulation will provide specific arrangements for each item. For example, the 2015 regulation on quota decisions only covers the import of sugar, as stated in Regulation Number 11 by the Head of BPKS. For other trading items, including cigarettes, the importers' requests will be used as a reference for the quota decision. The one-stop service officer (PTSP) at BPKS described this process in the following TA statement.

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

Several sources from the BPKS stressed that licensing and quota regulation of goods entering the Sabang FTZ should not be determined solely by considering the number of Sabang residents and tourists but must also take into account the number of visits. TH's opinion reflects this perspective.

The number of visits, in this case, is referred to as visits aimed at tourism, business purposes, and social purposes.

This statement means that importers and the BPKS are the main actors in determining the import of cigarettes to the Sabang FTZ area. The procedure begins with an offer made by the importer related to the quota of cigarettes. Then, after an initial review, the BPKS issues permits with a certain quota in response to importers' requests, even though the BPKS does not have any official written regulations on cigarettes. Consequently, the quantity of cigarettes entering the Sabang FTZ depends on recommendations from importers. Before 2018, there was only one cigarette importer, but in 2018, another company began importing cigarettes to Sabang. The increase is due to the assumption that cigarettes are a potential commodity and that demand is increasing in Sabang. SF, a cigarette importer in Sabang, explains this situation.

We, the importers, are the traders, so we do not consider and pay attention to the distribution of these cigarettes outside Sabang because that is the



responsibility of Customs. Our focus is on how many cigarettes that we can get into Sabang and can be resold. We are also not responsible for cigarette distribution outside the Sabang. Those who smuggle it out should be responsible for it. Not us.

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

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

Source: Primary data processed

According to data from PTSP, the requests for cigarettes by the two companies in November 2018 were 250 boxes of Rexo from Malang and 270 boxes of Special from Sidoarjo. Both brands were transported by land from East Java and delivered to 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 the product had no “Free Trade Zone” label. Regarding the packaging of goods in the FTZ area, there are two possible mechanisms: packaging in the production area or the destination country. Firstly, if packaged in the production area, the packaging must be labelled as “Sabang Free Trade Zone”. Secondly, if packaged in the destination country, this can be done in two ways: 1) The ships or trucks supply the raw and packaging materials, but the packaging process takes place in Sabang. 2) If the packaging occurs in other customs areas, 60 days are given. “Manchester” brand cigarettes were re-exported to Singapore because the importer could not complete 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 due to several factors. First, the quota of cigarettes is not explicitly regulated. Second, there is no clear rationale for categorising regulated and non-consumer goods. When cigarettes are considered a consumer good, an ideal quota arrangement should exist. Similarly, an ideal arrangement and quota should also be established if they are considered non-



consumer goods. Third, the current intention behind the establishment of the Sabang FTZ by BPKS is understood to be the development of the tourism sector, where consumption calculations include the number of tourist visits from non-Acehnese or non-Indonesian visitors and the number of social visits by the local Sabang community within the province of Aceh. Fourth, the "Special" brand cigarette from Sidoarjo has become a favourite in Sabang and Aceh due to its taste, attracting more buyers.

The government officially revokes the excise-free facility for excisable goods in the FTZ, starting May 17, 2019. In response to this policy, BPKS stated that they did not want to participate in the revocation of cigarette excise exemptions by the GoI, insisting that the Sabang FTZ is special, unlike other FTZ areas. Accordingly, the government will no longer handle the Free Trade Zone (CK) Excise Document-FTZ from that official date. In response to the policy, the following is an explanation from SS, a BPKS officer:

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

2. Discussion

The exclusive right to manage the Sabang area is also an important point outlined in a memorandum of understanding (The "Helsinki MoU") between the GoI and GAM in 2005. This agreement serves as a strong rationale for the formation of the Sabang FTZ. Additionally, UUPA No. 11 of 2006, derived from the Helsinki MoU Articles 4, 167, 168, 169, and 170, designates 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 levels - to form a special area after obtaining approval from the provincial parliament (DPRA) and district/city parliament (DPRK). Articles 167 to 170 specifically discuss the Sabang Free Port and Free Trade Area. According to BPKS, as outlined in the 2006 Master Plan, the management of the Sabang area focuses on four main aspects: deep sea, tourism, fisheries, and trade. In this light, BPKS provides supporting infrastructure for these four aspects, especially in the tourism sector.



However, there is a dilemmatic perspective between Aceh and Jakarta in post-conflict economic development. This concern is echoed in the critique of BPKS's inability to align with national government policymaking and the lack of attention for the Sabang FTZ. In reality, and partly because the Sabang FTZ was initially designed as a political instrument for the separatist movement, some accuse corrupt officers of merely taking advantage of the peace agreement and exploiting its political economy aspects. As a result, they are not focusing solely on economic development, a situation familiar in several post-conflict societies around the globe (Haass & Ottmann, 2017).

Lessons learned from several FTZs, such as the Shanghai FTZ, have made it clear that the old and outdated traditional approach to FTZs is no longer viable. Ports and harbours in fourth-generation FTZs have transformed into value-added services and centres for the flow of commodities, capital, and information (Wan et al., 2014). The case of the Dominican Republic FTZ has also shown that the development perspective was prioritised when fostering economic growth (Wagner, 2017). The Manaus FTZ in Brazil demonstrated a similar instance, with gradual improvements in poverty declining in the first decade of the FTZ's inception, which has become crucial to the sustainable economic development of similar FTZ cases (Castilho et al., 2019).

Furthermore, a free-trade zone like Sabang is subject to potential illegal cigarette smuggling due to lower prices and tax charges (Bate et al., 2020; Joossens & Raw, 1998). For example, China produces fake brand cigarettes to be distributed across Asian and European countries (Joossens & Raw, 2012). A similar situation occurred in Sabang, echoing the case in Russia. Illegal cigarette trading takes place in a free zone or port area with minimal supervision from customs (Cortés-Ramos et al., 2021). In this study, the term "illegal cigarettes" refers to the distribution of plain cigarettes without excise and the distribution of cigarettes from the free area (Free Trade Zone/FTZ) to other areas outside the Sabang FTZ through seaports (Syahputra & Edorita, 2016).

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

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

- a. Smuggling causes the availability of cigarettes at lower prices, thereby increasing the consumption of cigarettes and the burden on public health insurance for the country.
- b. The tobacco industry will use “smuggling” politically by lobbying the government to reduce taxes, arguing that price differences create 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. This situation means that the Sabang FTZ operates independently from standard Indonesian customs law, including the trading system, 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 legal cigarettes, as seen in Europe, for example.

The general demand-supply dynamics contribute to the increasing distribution of illegal cigarettes. For example, in Poland, the government imposed a law to raise the price of cigarettes, which led to a rise in black market consumption. Large companies seeking to avoid taxes organise the black market by smuggling their products at lower prices into specific market sub-groups (Ciecierski, 2007). The Sabang FTZ experiences a similar situation. The demand for cigarettes increases as consumers try to cope with high cigarette taxes, leading to a rise in the supply of illegal cigarettes. This situation is worsened by other obstacles faced by the Sabang FTZ. The primary setback lies in the development focus. Initially, the focus was on developing the port sector, but it has shifted more towards tourism.



Moreover, the BPKS and its key stakeholders must regulate and define what is considered consumer goods, especially for the 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 the FTZ must be more precise, including in the case of cigarette distribution outside the FTZ.

Given its strategic position, the Sabang FTZ must be appropriately managed. Effective management can be achieved by increasing management's competence in controlling illegal trading through the use of technology (Joossens & Raw, 1998). Moreover, there must be clear cigarette regulations to determine their legal status, including packaging requirements that identify tax stamps, health warnings, tar labels, nicotine and CO levels, brand names, and prices (Ciecierski, 2007; Ulum & Ulum, 2023).

Hence, the most crucial action for the government 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 practised in Georgia, which is outlined in the WHO Framework Convention for Tobacco Control (FCTC) protocol for eliminating the trade in illegal tobacco products (Paraje et al., 2022). The approach includes streamlining tax administration and supply chain controls (Mengesha & Ross, 2023) as well as effective enforcement of supply chains (Szklo & Drope, 2023). Policies to minimize the circulation of illegal cigarettes also require a differential approach based on local characteristics (Ayu & Kiramang, 2023; Maldonado et al., 2020), such as in the case of the Sabang Free Trade Zone in Aceh.

In a global context, the impact of illegal cigarette trade in the Sabang Free Trade Zone not only has local repercussions but also broader implications for international trade and regional security. As highlighted by Joossens and Raw (1998) and Ciecierski (2007), illegal trade practices often involve networks that cross national borders, affecting international trade policies and tax tariffs, and challenging global law enforcement and regulatory efforts (Ali et al., 2024; Ciecierski, 2007; Joossens & Raw, 1998). The presence of less regulated free zones can become hotspots for illegal activities

that seep into international markets, increasing access to cheaper illegal products and diminishing the effectiveness of public health policies across nations.

Enhancing international cooperation in the monitoring of free trade and illegal trade is crucial, as emphasized in the FCTC Protocol (Muamar et al., 2024; Paraje et al., 2022). The approach adopted by Georgia, which involves a tobacco product tracking system, provides a model that other countries could replicate to enhance cross-border regulatory effectiveness. Mengesha and Ross (2023) and Szklo and Drope (2023) underline the importance of effective tax administration control and supply chain enforcement, which can be further improved through the use of technology and international data exchange (Mengesha & Ross, 2023; Syahr et al., 2023; Szklo & Drope, 2023).

Thus, efforts to curb the circulation of illegal cigarettes should not only focus at the local or national level but also involve international cooperation and coordination. Policies should consider local characteristics, but also be responsive to broader global market dynamics (Hidayatullah & Fadillah, 2022; Maldonado et al., 2020; Sukma & Zulheldi, 2021). This underscores the importance of policy integration among nations and regions in combating illegal trade, indirectly supporting global economic stability and public health.

D. Conclusion

To sum up, the exploration of the in-country free trade zone (FTZ) in post-conflict Aceh, focusing on the illegal cigarette trade in Sabang, Indonesia, accentuates the unique challenges regions face 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, initially established as compensation for the conflict in Aceh, faces more complicated challenges in its implementation. Despite



these challenges, the Sabang FTZ has become fundamental to the overall development of post-conflict Aceh. Our findings indicate that the Sabang FTZ still holds potential despite serious mismanagement and a lack of coordination among key stakeholders. The political elite's failure to effectively manage the Sabang FTZ has led to 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 recent years. In general, the distribution of illegal cigarettes has worsened public health and economic conditions. Illegal cigarettes harm two components simultaneously. First, the state loses revenue; second, society suffers from deteriorating public health.

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 microcosm for the broader task of achieving economic stability and resilience in post-conflict regions, such as Malaysia, Thailand, Singapore, and the Philippines.

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