

Press Release of Indonesia for Global Justice (IGJ)

## Too Ambitious, Indonesia Urges the Finalization of Many Free Trade Agreements This Year

**Jakarta, November 16, 2018.** Indonesia for Global Justice (IGJ) considers that the ambition of the Indonesian Government to resolve various free trade agreements negotiated at this time are merely pursuing quantity targets. This is because in quality, how Indonesia, especially the people, will benefit from these various economic collaborations has never been precisely measured.

This view was conveyed by IGJ related to President Jokowi's insistence that the RCEP had to immediately finalize its negotiations when he attended the ASEAN Summit in Singapore this week. In fact, ambitiously, throughout 2018 many trade agreements were urged to be resolved by the Government, such as Indonesia-Australia CEPA, Indonesia-Europe FTA (IEFTA), and Regional Comprehensive Partnership Agreement (RCEP).

Related also to the takeover of the ratification of 6 (six) trade agreements from the Indonesian Parliament (The House of the Representative) to the Government so that ratification can be carried out without the need for approval from the Indonesian Parliament. The six agreements are: the ASEAN-India Trade in Services Agreement (AITISA), the Third Protocol to modify Goods Trade under the ASEAN-Korea FTA (AKFTA), Protocol to modify the Framework Agreement under the ASEAN-China FTA (ACFTA), ASEAN Agreement on Medical Device Guidelines (AMDD), Protocol for Implementing the 9th ASEAN Framework Agreement on Services (AFAS-9), and Protocol to change Indonesian-Pakistani PTA (IP-PTA).

IGJ's Executive Director, Rachmi Hertanti, requested that the Indonesian Government does not need to be too ambitious to finalize several negotiations on free trade agreements this year or next year. This is because there are a lot that must be considered as the broad impacts by Indonesia, considering that free trade agreements are not only about exports and imports.

*"The government mindset is very narrow to see trade partnership as if it is only about exports and imports. **If the government only pursues the target of increasing export value in the near future, the way is not by signing many FTAs.** It is rather finishing the homework which still hampers Indonesia's competitiveness," Rachmi said.*

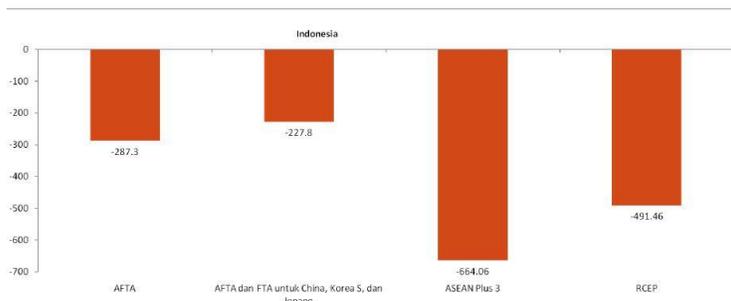
According to Rachmi, the finalization of this year's FTA negotiations does not necessarily have a direct impact on Indonesia's trade performance. In fact, there is no guarantee that the entry into force agreement can be enjoyed positively by Indonesia. It is possible that the result of binding commitment to opening the domestic market will actually increase the potential deficit for Indonesia's trade balance due to the contents of a very ambitious agreement from both parties in the agreement.

*"What guarantee the increasing of our exports due to FTA? Does the government have a precise calculation about the impact of FTA both on the economic and social side? In RCEP itself, Indonesia has continued to experience the deficit since 2015 (see **attachment table 1**)," Rachmi concluded.*

**Table 1**

### Indonesia's Trade Balance within the Framework of RECP and Other Regional Cooperation (in US \$)

#### Neraca Perdagangan Indonesia dalam Kerangka RCEP dan Kerjasama Regional Lainnya (dalam juta US \$)



Sumber: GTAP, diolah Puska KPI (2015)

AFTA and FTA for China, South Korea and Japan  
Source: GTAP, processed by Puska KPI (2015)

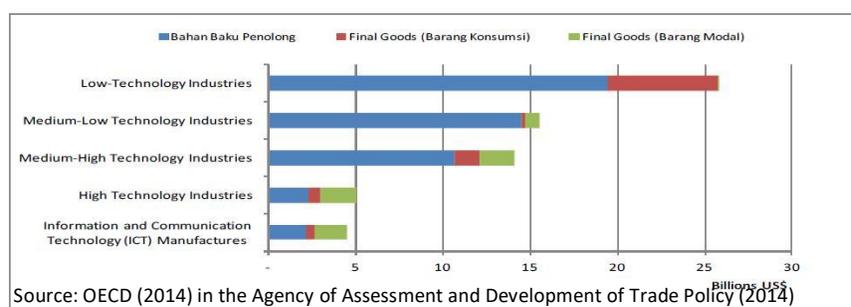
According to IGJ's records, the average utilization of FTA<sup>1</sup> by Indonesia in encouraging Indonesia's export performance is still very low, which is at only 30% to 35%. This is because the issue of Indonesia's competitiveness is very low. Even IGJ noted that there are 3 things that are the causes of Indonesia's low competitiveness: **First**, Indonesia's exports still rely on exports of raw materials and commodities that have no added value; **Second**, Indonesia's leading commodity products are still dominated by low-tech products; and **Third**, trade creation in trade liberalization continues to create a high dependence on imported products. (See attachment table 2-4)

**Table 2<sup>2</sup>**  
**10 Indonesia Main Export Commodities 2013-2018**

NO	HS	Uraian	2013	2014	2015	2016	2017	Role. (%) 2017	Jan-Agst 2018	Role. (%) 2018
1	15	ANIMAL/VEGETABLE FAT & OIL	19.224,9	21.059,5	18.658,8	18.233,5	22.966,5	15,00	13.466,3	12,39
2	27	MINERAL FUEL	24.780,3	21.058,1	16.077,8	14.785,7	21.138,7	13,81	16.456,9	15,14
3	85	ELECTRONIC DEVICES/TOOLS	10.438,4	9.745,7	8.562,2	8.161,0	8.504,9	5,56	5.818,0	5,35
4	40	RUBBER AND RUBBER GOODS	9.394,2	7.100,0	5.913,5	5.664,2	7.740,7	5,06	4.405,9	4,05
5	87	VEHICLE AND ITS SPAREPARTS	4.567,2	5.213,7	5.419,4	5.867,8	6.836,5	4,47	4.857,4	4,47
6	84	MACHINES AND MECHANICAL APPLIANCE	5.968,5	5.969,1	5.215,1	5.890,9	5.869,4	3,83	3.852,1	3,54
7	71	JEWELRY / GEMS	2.751,3	4.648,2	5.494,8	6.368,7	5.608,6	3,66	3.891,7	3,58
8	64	FOOTWEAR	3.860,4	4.108,4	4.507,0	4.639,9	4.910,0	3,21	3.366,7	3,10
9	62	NON-KNITTING GARMENTS	3.902,6	3.931,5	3.978,2	3.879,8	4.143,8	2,71	3.019,5	2,78
10	44	WOODS AND WOODEN GOODS	3.634,9	4.071,1	4.005,8	3.872,4	4.005,1	2,62	2.955,0	2,72

Source: Processed by IGJ from Ministry of Trade

**Table 3<sup>3</sup>**  
**Indonesia's Export Composition to RCEP According to Technology Group 2013**



Source: OECD (2014) in the Agency of Assessment and Development of Trade Policy (2014)

Sumber: OECD (2014) dalam Badan Pengkajian dan Pengembangan Kebijakan Perdagangan (2014)

**Table 4**  
**Composition of Indonesia's Non-Mineral and Oil Import 2013-2017 (%)**

	2013	2014	2015	2016	2017
Consumption Goods	7,04	7,11	7,62	9,11	9,02
Raw Material Aide	76,06	76,45	75,04	74,42	75,01
Raw Material (processed) for Industry	41,11	41,97	47,48	48,17	46,79
Fuel	30,64	30,92	22,38	18,27	20,56
Capital Goods	16,90	16,45	17,34	16,48	15,98

Source: IGJ, processed from IGJ FGD Material September 17, 2018

<sup>1</sup> ASEAN FTA, ASEAN-China FTA, ASEAN-Korea FTA, Indonesia-Japan EPA

<sup>2</sup> This data was obtained by IGJ from the presentation of the keynote speaker presentation (Economist from IPB) at a limited 2017 FGD event.

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"We still have many obstacles in solving national competitiveness issues. There has to be seriousness from the Indonesian Government in developing a long-term strategy in order to strengthen Indonesia's economic fundamentals through the agenda of national industrialization and import substitution," she explained.

### An FTA Impact Analysis is Needed before Ratification

According to Rachmi, the FTA agreement will be valid indefinitely, but the rules have locked the country at that time without any room to be able to adjust the rules based on future conditions. *"Ratification of free trade agreements must be carried out carefully. The long-term impact must be calculated. Once we ratify, we must harmonize all national regulations and we will find it difficult to withdraw or request renegotiation without political and economic risks,"* she added.

Rachmi explained that in the contents of the FTA agreement not only negotiating market access, but the government also negotiated "Rules" which contained principles or legal rules regarding how the state carries out its obligations to implement the agreement. Even "Rules" are also considered to have the potential to cause social and human rights impacts and are contrary to the Constitution. For example, the principle of transparency, non-discrimination, regulation coherence (the harmonization of national law), what the state may or may not do in making rules so that it will not distort the trade, dispute resolution mechanisms, Ratchet, standstill, prohibition on performance requirements, including rules relating to other trade-related agreement chapters such as IPR protection and foreign investment.

*"Sometimes, policy makers, not only the government but also the Indonesian Parliament, do not understand the "Rules" arranged in the agreement. It is because this part of the "Rules" has a wider social impact and even the potential impact on state sovereignty. Sometimes, the contents of the FTA agreement can eliminate the responsibility of the state in the context of fulfilling human rights in Indonesia, specifically the fulfillment of economic, social and cultural rights. The Devil is in details,"* Rachmi explained.

Due to potential impact that is claimed to be very broad, not only economic but also will have an impact on social and human rights, Indonesia for Global Justice (IGJ) urges the Indonesian Government and even the DPR to conduct an FTA impact analysis before ratification of the agreement. Some agreements that have been finalized were discussed in 2018 such as Indonesia-Australia CEPA, Indonesia-Europe FTA (IEFTA), and Indonesia-Singapore Bilateral Investment Treaty.

"Before ratification, it is necessary for the House of the Representatives and the Government of Indonesia to analyze the impact of the FTA that has been negotiated. This is to accurately calculate what impact Indonesia will truly experience in the future," Rachmi concluded.

### The Importance of Negotiation Text Transparency

Based on a survey conducted by IGJ in 2018, 50% of the community (respondents) expressed doubt if the Indonesian Parliament knew the contents of the text and its impact on Indonesia. As the most important party in approving Indonesian binding into an international agreement, the Indonesian Parliament must understand the contents and impact of the agreement both during the negotiation process and when the negotiations are complete.

According to IGJ, the FTA negotiation process has been very confidential and closed, not only to the public but also to the DPR. There is no democratization process in it, this policy is top-down, even sometimes the Regional Government does not know what will happen if the FTA is implemented and what the impact on the community is in the area.

Some FTA agreements negotiated by the Government are very comprehensive and there are about dozens of chapters. During the process the government never involved related parties. In practice, after the agreement has been discussed, the agreement will be sent to the Indonesian Parliament for approval. And in a short time the Indonesian Parliament must decide. Based on Law No.7 of 2014 concerning Trade, it is stated in article 84 (5) that the Indonesian Parliament Republic of Indonesia is only given a maximum of 1 (one) session period to discuss the agreement to be ratified.

*"It is very brief time for Indonesian Parliament to discuss it, only about 3-4 months. It will not be enough to understand how the FTA impacts comprehensively. So it is only natural if the discussion in the Indonesian Parliament Republic of Indonesia takes a long time to learn. So this is not a matter of how quickly Indonesia ratifies, as was done by the Coordinating Minister for Economy who took over the ratification process of the 6 Trade Agreements that are being discussed by the Indonesian Parliament because they are considered too long. But this is a matter of how the state has an obligation to protect the broad public interest,"* Rachmi stated.

Therefore, IGJ together with civil society groups continue to call for a process of transparency and public participation in FTA negotiations, so that the anticipated impact of a broader FTA Agreement can be carried out from the start. *"For example, 7 chapters that have been discussed at RCEP to immediately open the text to the public and related parties so that there is a long time to study it and to study its impact on Indonesia in the long term,"* Rachmi urged.

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