

Policy Paper

Indonesia for Global Justice

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Critical Analysis Indonesia-Australia CEPA: “Potential to Increase Imports, Than Exports”

The regression analysis showed that the variable tariff had no effect on the performance of Indonesia's exports to Australia. So far, Indonesia's trade barriers to Australia have been influenced by non-tariff measures. The IA-CEPA will surely deepen the trade deficit between Indonesia and Australia from 2014 to 2018, the trend was increased by 50.05% or a deficit of up to 3 billion USD in 2018. Increasing the signing of the FTA is not the solution. The most likely and immediate option for the Government of Indonesia is to develop an import management policy map.

Background

The Indonesia-Australia CEPA (IA CEPA) was signed by the Government of Indonesia in August 2018. These negotiations have started since April 2005. The government claims that the IA-CEPA is intended to encourage mutually beneficial bilateral cooperation, including: **(1)** forming an "Economic Powerhouse". Indonesia and Australia are expected to be able to exchange raw commodities in order to develop production for re-export activities to third countries; **(2)** Access to the Australian commodity market with a reduction of 6474 tariff items to 0%, especially for Automotive, Textile and Garment products, Herbicides and Pesticides, Electronics, Machinery, Rubber and its derivatives, Timber and derivatives, Coffee, Chocolate and Paper.¹

However, how big is the export potential that Indonesia has? Previously, Indonesia already had a cooperation agreement between ASEAN and Australia and the New Zealand FTA (AANZFTA). Ratification of AANZFTA trade cooperation was carried out by the Government of Indonesia in 2011 with Presidential Regulation No.26 of 2011. Under the agreement, almost 90% of products have tariffs of up to 0%. Indonesia's trade balance with Australia since 2012 continues to show a deficit figure, especially in the Non-Oil and Gas sector. **(See table 1).**

The Facts

In the Ministry of Trade's study on the cooperation of Indonesia Australia CEPA in 2016 showed a very interesting fact. The regression analysis showed that the variable tariff had no effect on the performance of Indonesia's exports to Australia. So far, Indonesia's trade barriers to Australia have been influenced by non-tariff measures.

So far, the quarantine standards of products and SPS applied by Australia cannot be easily penetrated by Indonesian exporters so it creates additional costs for Indonesia's export products in to the Australian market. In addition, the Ministry of Trade's study also stated that export potential is negative if assessed from the GDP factor. Australia's GDP growth will not contribute to the demand for imported goods from Indonesia².

From this study, it is easy to conclude that the main priority is not to encourage a reduction in tariff posts but to encourage the ability of Indonesian exporters to be able to meet Australian qualifications. The question is whether the IA-CEPA is relevant as a priority agenda in the context of a trade before there are an improvement and a significant increase in the capacity of the relevant domestic industry?

Tabel 1 –Indonesia-Australia Trade Balance 2012-2018 (In Million US\$)

Uraian	2011	2012	2013	2014	2015	2016	2017	2018	2019 (Jan-Mei)
TOTAL PERDAGANGAN	10,760	10,203	9,409	10,595	8,518	8,469	8,532	8,644	2,980
MIGAS	2,508	1,766	1,606	1,408	851	1,270	1,547	1,321	351
NON MIGAS	8,252	8,437	7,803	9,187	7,667	7,199	6,985	7,323	2,629
EKSPOR	5,582	4,905	4,370	4,947	3,701	3,208	2,524	2,819	883
MIGAS	2,504	1,547	1,397	1,251	707	538	582	656	91
NON MIGAS	3,078	3,358	2,973	3,696	2,994	2,670	1,942	2,163	791.6
IMPOR	5,177	5,297	5,038	5,646	4,815	5,260	6,009	5,826	2,098
MIGAS	3	219	209	156	143	731	965	665	260
NON MIGAS	5,174	5,078	4,829	5,490	4,672	4,529	5,044	5,161	1,838
NERACA PERDAGANGAN	405	-392	-668	-699	-1,114	-2,052	-3,485	-3,007	-1,215

Source: The Trade Ministry of Republic of Indonesia

Critical Analysis

The trade map data shows that the export potential that has not been utilized by Indonesia in the Australian market is only worth USD 201 million, on the contrary, Australian exports to Indonesia have not been utilized amounted 1 billion USD or almost 5 times the additional export potential of Indonesia.³ **With this assumption, the IA-CEPA will surely deepen the trade deficit between Indonesia and Australia from 2014 to 2018, the trend was increased by 50.05% or a deficit of up to 3 billion USD in 2018.**⁴

Indonesia's export opportunities to Australia that have not been utilized include; motor vehicles whose value reaches 201.6 million USD, the actual export is only 1%, which is worth 1.6 million USD. Paper for Households and Sanitation still has the potential to increase by 39.5 million USD with the utilization of only 51%. Plywood and Laminated Wood have a chance to only be utilized by 53% or there is still a chance of 35.8 Million USD, Newspaper and Printing Paper is only 45% or there is a potential of 40.6 million that has not been utilized.

Whereas the opportunities for Australian exports to Indonesia that have not been utilized include 1 billion USD worth of Wheat Ore where the utilization is only 51%, live Cows worth 236 Million USD or only 68% utilized, 327 Million

USD worth of beef where 35% is used, Copper worth 277 million USD and Cotton 179 USD, etc. **(See Figures 1 & 2 below)**

By looking at this fact, the Indonesian government must be more selective in managing export potential after the IA-CEPA, where imports of beef and cattle need to be anticipated in such a way so they do not kill the potential of local cattle. On the contrary, the exports that should be used to improve the quality of calves in the long term will be able to encourage the self-sufficiency of beef nationally. On the other hand, exports of wheat, copper, cotton and raw material products for processed industries need to be managed in a way to be able to improve the competitiveness of the national processing industry in the interests of import substitution as well as industry which aim is to re-export.

There are some serious questions arise. **First**, does the government prepare an anticipation scheme to anticipate the imported products from Australia are absorbed into domestic-oriented industries and also household consumption, thus giving birth to a trade-off in local industrial production? **Second**, whether the government has actually set up a re-export industry and how much of investment commitment has been gained to develop it? and **Third**, has the government prepared a third party commitment to receive re-export

commodities from the ease of import of products from Australia.

All three have not been clearly and openly explained by official authorities until IA-Cepa was signed and are now in the stage of the ratification of both parties. The Ministry of Trade targets an increase in exports to Australia at least by 20%.⁵ However, BPS (Statistics Indonesia) recorded Indonesia's non-oil and gas export value to Australia in January-April (Q1 2019) was only 605.9 Million USD whereas Q1 2018 reached up to 734.6 Million USD which means that it declined to 17.52%.⁶

Recommendations

This data shows that what has been targeted by the government cannot be proven at all, what happen was precisely the opposite, even though there is still time for the government to consolidate with domestic businesses to eventually improve the performance of

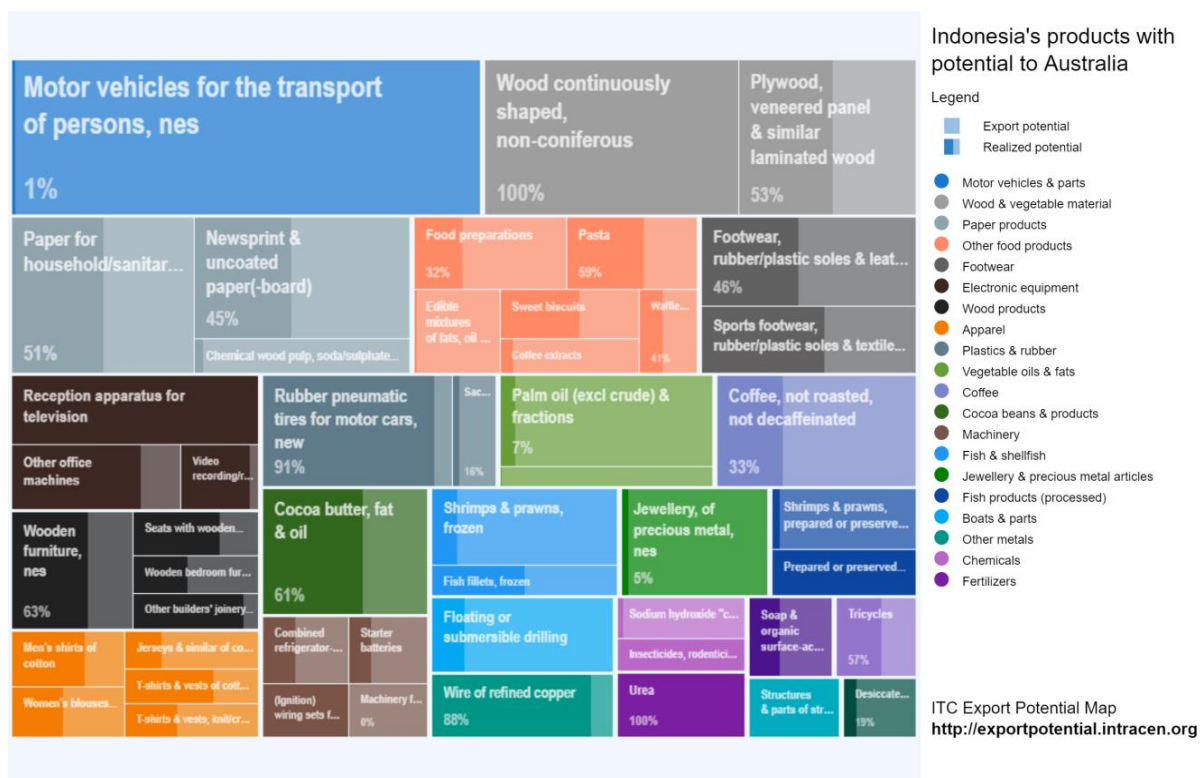
Indonesian exports to Australia by utilizing trade facilities agreed in the IA-CEPA.

The data above shows, what the government's target in IA CEPA cannot be proven at all. On the contrary, **the potential for greater deficits occurs**. The right strategy is needed to answer the problem of Indonesia's trade performance. **Increasing the signing of the FTA is not the solution.**

In fact, with the FTA, trade pressures on opening the import market to Indonesia are increasingly high. If the Government of Indonesia cannot manage imports, trade performance will be difficult to improve.

The most likely and immediate option for the Government of Indonesia is **to develop an import management policy map**. One strategic way **to develop is an effective non-tariff measures (NTMs) strategy, especially for the agricultural sector.**

Figure 1 - Indonesia's Potential Export Products to Australia



Source: trademap

Australia's products with potential to Indonesia



ITC Export Potential Map
<http://exportpotential.intracen.org>

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¹ Lihat dalam Facts Sheet IA-CEPA, Kemendag http://ditjenppi.kemendag.go.id/assets/files/publikasi/doc_20181015_fact-sheet-indonesia-australia-cepa.pdf

² Pusat Kebijakan Kerjasama Perdagangan Internasional, Badan pengkajian Pengembangan Perdagangan, Kementerian Perdagangan, 2016, *Analisis Strategi Prosisi Runding dalam Memperkuat Kerjasama Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA)* http://bppp.kemendag.go.id/media_content/2017/08/Laporan_Analisis_IA-CEPA_versi_cetak.pdf hal 33-34

³ Dapat dilihat melalui <https://exportpotential.intracen.org/#/products/tree-map?fromMarker=i&exporter=360&toMarker=j&market=36&whatMarker=k> bandingkan <https://exportpotential.intracen.org/#/products/-tree-map?fromMarker=i&exporter=36&toMarker=j&market=360&whatMarker=k>

⁴ Lihat <http://www.kemendag.go.id/id/economic-profile/indonesia-export-import/balance-of-trade-with-trade-partner-country?negara=311>

5 Ekspor Ke Australia Bakal Naik 20% <https://www.liputan6.com/bisnis/read/3638943/ekspor-ri-ke-australia-bakal-naik-20-persen>

⁶ Lihat Berita Resmi Statistik Ekspor-Impor April 2019, <https://www.bps.go.id/pressrelease/2019/05/15/1569-ekspor-april-2019-mencapai-us-12-60-miliar.html>