

Agreements?

By:
Alexander C. Chandra
Institute for Global Justice

There have been a growing number of bilateral free trade agreements (BFTAs) in recent years. Many such agreements are to be found in the East Asian region, with Singapore and Thailand as two of the most active countries to pursue this type of agreements. Recently, the Association of Southeast Asian Nations (ASEAN) has also signed a Comprehensive Economic Partnership Agreement with China during the tenth ASEAN Summit, which was held in Vientiane, Laos. This was the first BFTA signed between a regional grouping and a state in the East Asian region, and was a stepping stone towards the creation of other similar agreements involving ASEAN and other East Asian countries. Like many of its counterparts in ASEAN, Indonesia is increasingly tempted to follow this form of foreign economic policy (FEP). Many policy-makers and economic experts believe that Indonesia should consider the pursuit of this type of trade agreement to avoid being left out by this trend. However, Indonesia should be more cautious in considering the pursuit of this type of FEP.

Although BFTA phenomenon has emerged since the late 1990s, serious discussions regarding Indonesia's position in many of these BFTAs had only emerged since the mid-2004. At the time, the Indonesian government held a conference on the Readiness of Indonesia in Facing the Development of FTAs Formation to decide the blue print for the country's position in various proposed free trade agreements. Since then, many countries have expressed their interests to pursue BFTA with Indonesia. Apart from those within the auspices of the ASEAN plus Three (APT) framework, Indonesia has also been approached by several major developed countries, such as the US and the member countries of the European Free Trade Association (EFTA), to pursue BFTAs.

Despite the enthusiasms expressed by policy-makers and members of the academic in Indonesia towards the pursuit of this form of foreign trade policy, they failed to address a number of issues that have to be assessed prior to the conduct of such trade agreement. Firstly, it is not in the interests of the Indonesian people that their country is undergoing the trade liberalisation process at a faster pace. BFTAs tend to cover wider trade liberalisation than that achieved at the WTO level, and, as such, they accelerate the process of

trade liberalisation in many developing countries. Since aggressive trade liberalisation approach has been undertaken by Indonesia in the mid-1990s, the country has been undergoing the process of deindustrialisation. Many Indonesia's industrial sectors, including the textile, garment, footwear, leather, electronic sectors, are currently being shut down due to increased competition with larger foreign producers, and resulting to high job losses. The obvious negative impact of trade liberalisation is also clear in the increasing environment degradation throughout the country.

Secondly, even if BFTA policy is pursued, the Indonesian government must carefully select the right trade partner. In a case where a BFTA involves a developed country and a poorer country, and given the relatively weak bargaining position of the latter, it is likely that the more developed country will jeopardise the outcome of the negotiation. Unfortunately, the Indonesian government has decided to agree on the formation of the ASEAN-China Free Trade Area. The flood of goods from China is already on the rise in Indonesia. In recent months, for example, the Indonesian Textile Association (API – Asosiasi Pertekstilan Indonesia) has been demanding the government to implement a safeguard mechanism to halt the excessive textile import from China. Meanwhile, the proposed BFTA between Indonesia and the US, as well as with EFTA, would also undermine the position of the Indonesian government in the WTO, particularly on issues related to the environment, service sector, and intellectual property rights. It seems likely that both the US and EFTA would want to include issues that have been omitted at the multilateral level in future BFTA talks with Indonesia.

In the service sector, in particular, Indonesia has been a net importing country for this sector. This fact alone illustrates the limited capacity that Indonesia is capable of doing in competing with foreign service sector providers. In the maritime transportation sector, for instance, between 1996 until 2000, nearly 96 percent of maritime transportation service providers are non-Indonesian. Apart from being a net importing country, Indonesia still also lacks of grand strategy to develop its service sector. The trade imbalance for this sector would, therefore, clear if EFTA insists of pursuing BFTA with Indonesia.

Thirdly, Indonesian domestic industrial and agricultural sectors are still behind in terms of competitiveness and efficiency, and lack the necessary infrastructure to support all these BFTAs. For example, it is very unlikely that Indonesia will be able to achieve a sustainable level of competitiveness and efficiency in the absence of stable laws and regulations. In the event that the Indonesian government remains committed to the conduct of this type of policy, incentives are needed to increase the level of efficiency and competitiveness of the domestic industrial and agricultural sectors. Such incentives, for example, can be made in the tax system as well as in the

reform of existing labour laws and provincial regulations. In the absence of such domestic reforms, BFTA policy is unlikely to contribute to the development of the Indonesian industrial and agricultural sectors.

Fourthly, an insistence on pursuing a BFTA policy would also create more confusion for custom officials working at the border areas. Indonesian custom officials are confused enough with Indonesia's overlapping commitments in AFTA, APEC, and the WTO. Moreover, in contrast to the prediction that free trade will stop smuggling, the confusion generated by such overlapping memberships will actually maintain or increase the level of illegal smuggling at the border areas. One can imagine how complicated it would be if Indonesia conducted a BTA with, lets say, every country in the Asia-Pacific region. This is not to mention additional complication when Indonesia is forced to implement BFTAs with non-Asia-Pacific key major developed countries.

Fifthly, an excessive emphasis on BFTA policy will also undermine Indonesia's overall foreign economic policy. Indonesia is already committed to regional economic integration with other Southeast Asian countries under the auspices of the ASEAN Free Trade Agreement (AFTA). The Indonesian government has promised that this regional trade liberalisation will be a learning process for Indonesia prior to committing further to other forms of trade liberalisation. Although AFTA has already progressed towards its final stage, this trade liberalisation scheme is not yet fully operational (Indonesia, as one of the original member countries, is scheduled to enter the final stage of AFTA by 2008). It would be a much wiser step if the Indonesian government waited until AFTA is fully finalised and has produced more concrete results before making further BFTA commitments.

It might be that the best path of all for the Indonesian government to reassess its commitment to pursue BFTA policy. As with the practice of free trade regime today, BFTAs are no other than hidden tools that are used to secure the privileges and the wealth of multinational corporations and to advance the interests of powerful governments. It is particularly important for the Indonesian government to consult its domestic constituents and to examine whether this type of trade policy would serve the actual needs and interests of the Indonesian public.

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For more information please contact

Marianne Hochuli, The Berne Declaration, trade@evb.ch, 044 277 70 11