

Indonesia: Not a Priority in the European Union Bilateral FTA Negotiations with ASEAN

Zainab Assegaff¹

¹ Universitas Indonesia

*Corresponding author. Email: zassegaff@gmail.com

ABSTRACT

This explains why Indonesia was not a priority for the European Union (EU) in negotiating a bilateral FTA (Free Trade Agreement). Qualitative analysis was used and data was collected in the form of books, articles, journalism, and official pages from relevant organizations. Foreign Policy theory was employed to define Indonesia's status in regard to the EU. Using this theory, the internal and external factors of the EU were analyzed. The analysis revealed that Indonesia was indeed not a priority for the EU when bilateral FTA negotiations began in 2010. The EU internal factors demonstrate the fact that Indonesia is not popular in Europe; the EU had experienced a trade deficit with Indonesia; the EU was occupied with the election of the European Parliament; the EU conducted economic relations with many other countries in the world, hence it had to divide its priorities; and the EU's perception of Indonesia related to environmental issues is also unfavorable. Whereas, there were also two external factors that greatly influenced the EU's decision not to prioritize Indonesia. The first was the condition of Indonesia-EU economic relations and Indonesia's domestic condition. Indonesia is not the EU's primary trading partner in ASEAN (Association of Southeast Asian Nations). The EU economic relations with other countries in ASEAN like Singapore and Malaysia are more significant than those with Indonesia. In terms of Indonesia's domestic condition, Indonesia is not as competitive as other countries in ASEAN like Singapore, Malaysia, and Thailand. In terms of GDP (Gross Domestic Product), Indonesia is also behind Singapore, Brunei Darussalam, Thailand, and Malaysia. Moreover, the policies and regulations issued by Indonesia in 2014 were also unfavorable for in terms of trade with the EU. Likewise, the investment climate in Indonesia is not more favorable than in Thailand, the Philippines, and Vietnam. For Indonesia, the EU is equally not a priority target for cooperation because Indonesia is focusing on cooperation with countries in ASEAN and China. As an international actor, the EU is also less known in Indonesia.

Keywords: FTA, The European Union, ASEAN, Indonesia, Foreign Policy Theory

1. INTRODUCTION

At the Fourth ASEAN (Association of Southeast Asian Nations) Summit held in Singapore in 1992, six member countries (Indonesia, Thailand, Malaysia, Brunei Darussalam, the Philippines, and Singapore) agreed to establish an ASEAN Free Trade Area (AFTA) and conduct a Free Trade Agreement (FTA). AFTA is a trade block agreement supporting local manufacturing in all ASEAN countries, and it was signed on January 28, 1992 (Kemenlu RI, 2012).

In addition to conducting FTAs within ASEAN member countries, FTAs are also carried out with countries outside ASEAN. One of them is FTA negotiations between ASEAN and the European Union (EU). As a single entity, the EU is the largest economic

power in the world. It accounts for almost 30 percent of total world output and outperforms the combined total GDP of the United States, Japan and China (Lord, Oktavian, & Ruehe, 2010). The EU is also the largest export market for more than 100 countries, including Indonesia (Kementerian Keuangan RI, 2012). Hence, the EU plays a very important role in defining global trade (Damuri, Atje, & Soedjito, 2014).

FTA negotiations with a region-to-region approach between ASEAN and the EU were carried out in 2007 but subsequently terminated in 2009. This was done to makeway for bilateral FTA negotiations as the foundation for region-to-region agreements in the future. The EU-Singapore and the EU-Malaysia bilateral FTA negotiations commenced in 2010, the EU-Vietnam in June 2012, the EU-Thailand in March 2013, the EU-

Philippines in December 2015, and the EU-Indonesia on July 18, 2016 (European Commission, 2019a).

Indonesia is the largest economy in ASEAN, with a Gross Domestic Product (GDP) of approximately 36% of ASEAN's overall GDP. Indonesia also has the largest population (250 million people) in the region. The EU is Indonesia's fourth partner, while Indonesia is the EU's fifth partner in ASEAN, and in 2017 Indonesia was ranked 31st in the EU trade worldwide (European Commission, 2019c). Despite being the largest economy and the biggest potential market in ASEAN, however, Indonesia is only the EU's fifth partner. Also, it was not the first to negotiate bilateral FTA with the EU but the 6th after other ASEAN countries.

The trade in goods between the EU-Indonesia and the EU with other countries in ASEAN is represented in Figure 1 through Figure 4. This data was compared find out whether there was a connection between trade value and the selection of which countries that the EU would negotiate bilateral FTAs first.

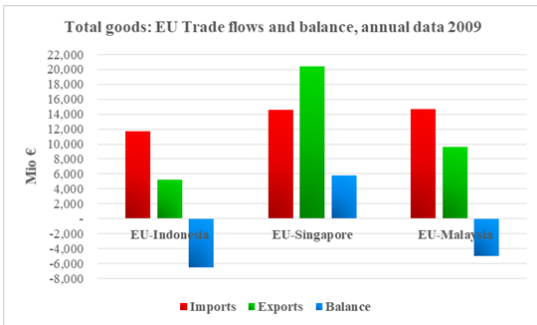


Figure 1 EU trade flow and balance, annual data 2009.

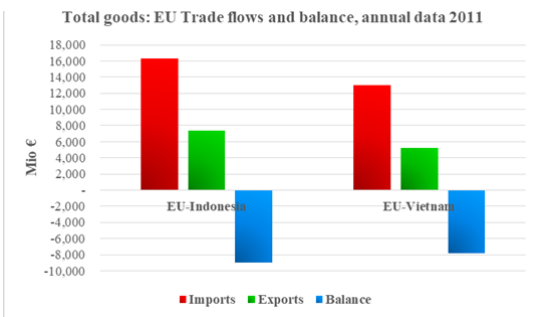


Figure 2 EU trade flows and balance, annual data 2011.

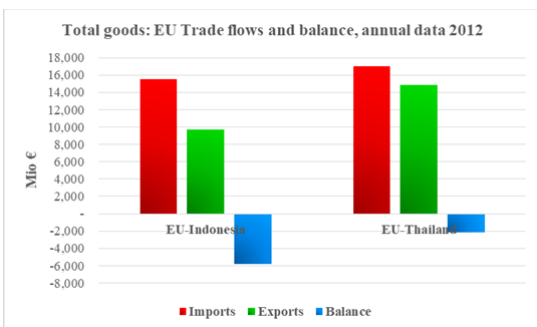


Figure 3 EU trade flows and balance, annual data 2012.

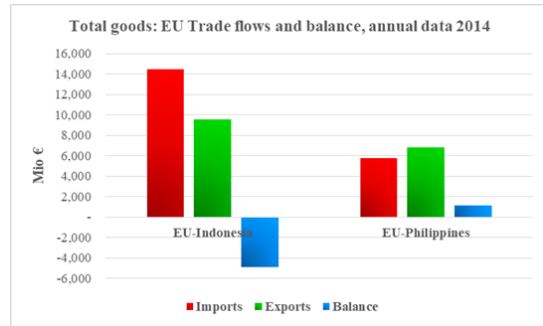


Figure 4 EU trade flows and balance, annual data 2012.

Table 1. Results of the comparison

Fig. No.	Countries	Related to Trade Value?	
		Yes	No
Fig. 1	EU-Indonesia EU-Singapore EU-Malaysia	V	
Fig. 2	EU-Indonesia EU-Vietnam		V
Fig. 3	EU-Indonesia EU-Thailand	V	
Fig. 4	EU-Indonesia EU-Philippines		V

Based on the data in Table 1, it appears that the EU FTA negotiations with Singapore, Malaysia, and Thailand are related to trade value, while the EU FTA negotiations with Vietnam and the Philippines are not. Because the results vary, it can be inferred that trade value is not the primary reason for the EU to determine which country to choose when negotiating a bilateral FTA.

From the standpoint of trade compatibility, many of the EU's imports are in line with Indonesia's export and potential. Therefore, an economic partnership agreement could benefit trade in both economies. The EU holds an advantage in exporting high-technology transportation, machinery, and electrical products to Indonesia. Meanwhile, Indonesia's exports are complementary to the EU's demands, especially in wood and wood products, fish, textiles, and vegetable products (Damuri, Atje, & Soedjito, 2014). These circumstances did not make Indonesia the first choice for a FTA. This led to the research question *Why was Indonesia—the largest economy in ASEAN—not a priority for the EU when negotiating bilateral FTAs?*

2. LITERATURE REVIEW

There are not many articles that adequately address EU-Indonesia bilateral FTA negotiations. Therefore, to discover the reasons why the EU negotiates an FTA with a country, articles analyzed the EU bilateral FTAs in

general, as well as those with other countries were reviewed. From the review, several reasons for the EU to negotiate or not negotiate bilateral FTAs, or trade agreements in general, were conveyed by the writers. The reasons were the economy, politics, development, the environment, universal values, defensive, and offensive.

The European approach to FTAs has developed in response to changing conditions in the global economy (Gavin & Sindzingre, 2009). According to several writers (Gavin & Sindzingre, 2009; Heras, 2016; Cheng, 2017; Garcia-Duran & Eliasson, 2018), up until 2006, EU bilateral agreements had non-economic goals (political, environmental, and developmental). After 2006, a new set of FTAs were competition-oriented and based primarily on economic considerations (Botezatu, 2007; Lindberg & Alvstam, 2007; Gavin & Sindzingre, 2009; Rahman & Inkyo, 2014; Cheng, 2017; Garcia-Duran & Eliasson, 2018). This was highlighted in the 2006 “Global Europe” strategy in which the EU set the agenda for its trade policies. Ha (2017) added that in the EU FTA with ASEAN, the EU aimed to promote universal values (labor standards, decent work, and environmental sustainability) through its external trade policies.

FTAs negotiated by the EU with developed countries and developing countries that have economic objectives include Japan, India, South Korea, Singapore, Malaysia, Vietnam, the Philippines, Indonesia, Mexico, and ASEAN (Botezatu, 2007; Gavin & Sindzingre, 2009; Pakpahan, 2012; Robles, Jr. 2012; Rahman & Inkyo 2014; Heras 2016; Bungenberg & Hazarika, 2017; Mazur, 2017; Garcia-Duran & Eliasson, 2018). Robles, Jr. (2014) added that financial crisis compelled the EU to consider new markets in developing countries, either through a new World Trade Organization agreement or through bilateral FTAs (European Commission, 2012, p. 17, in Robles, Jr., 2014). However, the economic reasons also caused the EU to not negotiate a bilateral FTA with China due to a number of issues such as granting market economic status to China and anti-dumping (Bungenberg & Hazarika, 2017), further implementation of domestic economic reform in China, and increasing Chinese participation in the multilateral/plurilateral trading system (e.g., Trade in Service Agreements or Information Technology Agreements) (Mazur, 2017).

For political reasons, the EU has not negotiated a bilateral FTA with Taiwan (Bungenberg & Hazarika, 2017)—this is related to the One China Policy. It has not an FTA with Thailand as well because of the military coup in May 2014 (Mazur, 2017). Whereas, after Myanmar's change toward democracy in 2011, the EU was willing to negotiate an investment protection agreement with Myanmar (European Commission, 2017d in Bungenberg & Hazarika, 2017).

Meanwhile, there was a defensive reason for conducting the EU-ASEAN FTA negotiations (Botezatu, 2007; Lindberg & Alvstam, 2007; Robles, Jr., 2008; Cuyvers, 2014; Meissner, 2016), the EU-Mercosur (Robles, Jr., 2008), and the EU-Mexico (Cheng, 2017) trade agreements. The concern was that the EU would be unable to compete with the United States, China, and Japan. Cuyvers (2014) added that the EU also had an altruistic interest in establishing deeper economic relations with ASEAN (EC, 2003, p. 9 in Cuyvers, 2014), like supporting regional stability and the fight against terrorism and promoting human rights, democratic principles, and good governance.

Hence, it can be inferred that the determining factors for commencing negotiations are country specific. Because there are not many articles that adequately address the EU-Indonesia bilateral FTA negotiations, this article may contribute specifically to the discussion on the negotiations and enrich the discussion on the EU-Indonesia economic relationship in general.

3. THEORETICAL FRAMEWORK

Foreign Policy theory was employed to answer the question Why was Indonesia not a priority for bilateral FTA negotiations conducted by the EU? Many opinions regarding foreign policy have been propounded in the literature. According to Modelski, the core concepts in foreign policy are policymakers, goals, principles, power to execute, and the context of foreign policy (Dugis, 2007). In addition, there is “Decision-Making Approach in Foreign Policy Making,” proposed by Richard C. Snyder, H. W. Bruck, and Burton Sapin (1962). They introduced the concept of setting in the Decision-Making Approach. Settings are a set of categories of potentially relevant factors and conditions that can affect the actions of any country. The categories are internal (system; society; environment—culture, population) and external (system, culture of other countries, society of other countries, organized society and functioning as a state, and government actions).

Furthermore, there are several other authors who regard foreign policy as state-centered actions and ideas (Rosenau, 1974; Wilkenfeld et al., 1980; Holsti, 1983 in Dugis, 2007). Whereas, some other authors argue that current foreign policy no longer represents just an action and idea put forward by the state but there is an addition role of played by non-state actors (Nossal, 1988; Mansbach, 2000; Kegley & Wittkopf, 2004; Russett et al. 2006 in Dugis, 2007). Therefore, the first target of foreign policy is foreign actors, both states and non-states (Wurfel & Burton, 1990 in Dugis, 2007).

Hence, it can be inferred that foreign policy represents an act of a state outside the boundaries of its territory that is influenced by two factors. The first factors are internal and include domestic actors (state institutions, NGOs, business, and society; the

environment), state interests, and domestic political conditions. The second factors are external and include foreign actors (both other countries and non-state actors, the environment) and international political conditions. Therefore, these two factors were analyzed to answer the research question.

4. RESEARCH METHOD

This article employs qualitative analysis method and is part of a problem-driven research. Qualitative method emphasizes the quality of analysis that refers to a theory or a concept. According to Djajasudarma (2009), qualitative research is a method that aims to provide a systematic description of the data, traits, and relationship of phenomena to be analyzed. I collected the data from books, articles, news, and official pages from related organizations. The purpose of employing qualitative method in this research is to obtain an overview or description of what caused Indonesia not to be the priority for the EU to negotiate bilateral FTA. The qualitative analysis is expected to provide an objective picture of the reasons underlying the EU's decision.

5. ANALYSIS

5.1. European Union Internal Factors

According to Schmitz in 2012 (Supamijoto, 2014), Indonesia is unpopular in Europe. He argues that three primary reasons caused this: (1) there is a lack of European media coverage on Indonesia or Indonesians; (2) the Indonesian community is a minority compared to other Asian migrants in Europe; and (3) tourism is not a important Indonesian economic sector, which might make Indonesia more popular.

In terms of trade relations, from 2007 to 2017, the EU has experienced a trade deficit with Indonesia. This imbalance can be observed in Figure 5 from the report of Eurostat Comext—Statistical Regime 4.

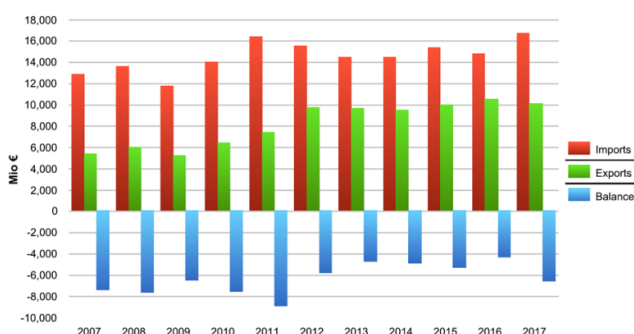


Figure 5 EU-Indonesia trade data, 2007–2017.

Furthermore, in May 2014, the EU was occupied with the European Parliament election, the first to be held since the Lisbon Treaty was enacted, which was

fundamentally different from previous elections. For the first time, there was a direct connection between the result of the election and the appointment of the European Commission President (European Commission, 2014). In the same year, the EU was also engaged with the conclusion of six important trade agreement negotiations with West Africa, the Southern African Development Community, the East African Community, Canada, Singapore, and Ecuador (DG Trade, 2014).

During 2015, the EU also conducted cooperation with many other countries in the world. The EU concluded negotiations on a non-preferential bilateral trade agreement (EPCA) with Kazakhstan. Moreover, 2015 was the first year of the implementation of a deep and comprehensive free trade area (DCFTA) with Moldova and Georgia (DG Trade, 2015). In October 2015, the EU commenced DCFTA negotiations with Tunisia. In East Asia, the EU focused on relations with some of the EU's biggest trading partners, especially China and Japan. The EU also concluded negotiations for a trade agreement with Vietnam, making it the second ASEAN member country after Singapore to negotiate an FTA with the EU. Furthermore, the EU also commenced FTA negotiations with the Philippines in December 2015. In South Asia, the EU focused on preparing to recommence FTA negotiations with India which had previously been carried out in 2007 (DG Trade, 2015). For the Africa, Caribbean, and Pacific regions, the EU included 27 countries in the region in the Economic Partnership Agreement implementation phase (DG Trade, 2015).

5.2. European Union External Factors

Despite the fact that the EU is an international actor that is heavily involved in Indonesian development, the EU is not well known in Indonesia. Through a comparative study in 2005, Gunaryadi (Supamijoto, 2014) found that the EU was less popular in Indonesia compared to ASEAN and other Asian countries. According to Gunaryadi, the significance of the EU-Indonesia relationship must be recognized before it can be strengthened. Nevertheless, several economic discussion have been conducted by the EU and Indonesia before starting FTA negotiations in July 2016, the Partnership and Cooperation Agreement (PCA) and the Comprehensive Economic Partnership Agreement (CEPA), for example.

Indonesia was the first country in ASEAN to sign a PCA with the EU This provided a legal and political framework for the bilateral relationship between the two (Development Solutions, 2019). The agreement was signed in 2009 and entered into force on May 1, 2014. It covered several areas like trade, the environment, energy, education, science and technology, migration, and counterterrorism (Delegasi Uni Eropa untuk

Indonesia dan Brunei Darussalam, 2016). According to the European Commission (2019d), FTA negotiations will develop the key aspects of the overall relationship between the EU and Indonesia framed by this PCA.

Indonesia and the EU commenced CEPA scoping in 2012 (Damuri, Atje, & Soedjito, 2014) but ceased it in 2013 due to disagreements regarding tariff reduction, service liberalization, and other matters related to restrictions on foreign ownership and enforcement of intellectual property rights (Global Business Guide, Indonesia, 2015). Then, during the annual EU-ASEAN dialog in April 2015, Indonesia expressed a desire to recommence CEPA scoping and the European Commission agreed to discuss it further in the annual EU-Indonesia dialog in September 2015 (Strong & Herd, 2015). Therefore, bilateral FTA negotiations commenced in 2016.

In terms of Indonesia, there were two primary factors that accounted for Indonesia not being the priority in bilateral FTA negotiations when compared to other countries in ASEAN, i.e., the condition of Indonesia-EU economic relations and Indonesia's domestic condition. Indonesia is not the EU's primary trading partner in Southeast Asia. Within ASEAN, EU-Indonesia trade ranks only 5th when compared to EU trade with other ASEAN members (Delegasi Uni Eropa untuk Indonesia dan Brunei Darussalam, 2016). Singapore dominated trade with the EU in ASEAN. Singapore contributed more than €42 billion in exports to European companies, while the EU imported €35 billion in goods and services from Singapore. In addition, there are at least 9,000 European companies located in Singapore (Elms, 2017).

The decline in the Indonesia-EU economic relationship is also caused by Indonesian economic relations with other countries. Indonesia trades more intensively with other developing countries, especially with ASEAN member countries rather than with more developed regions like the EU. The rise of China has also opened new market destinations for Indonesian products (Damuri, Atje, & Soedjito, 2014).

In terms of investment, the Indonesian relationship with the EU is not as strong as its trade relationship. When compared with the value of the EU's foreign direct investment (FDI) in the ASEAN region, which amounted to more than 23% of the total FDI, the EU's FDI to Indonesia was extremely small at only 1.6% (Kementerian Keuangan RI, 2012). Indonesia also encountered problems related to its unfavorable business and investment climate. Even though in the 2014 World Bank report, "Doing Business Report," Indonesia had risen from 117 to 114 out of 189 countries, Indonesia still lagged behind other countries in the region. For example, Thailand, the Philippines, and Vietnam all got a higher ranking than Indonesia (Damuri, Atje, & Soedjito, 2014). In addition, 2014 was an election year in Indonesia due to the legislative and presidential

elections. For approximately five months in 2014, political uncertainty had an impact on the investment climate (Indonesia-Investments, 2018).

In addition, Indonesia is not more competitive than other countries in ASEAN. Indonesia was ranked 44th out of 134 countries in the 2011 Global Competitiveness Ranking issued by the World Economic Forum (WEF), which lags behind Singapore (ranked 3), Malaysia (26), Brunei (28), and Thailand (38) (Lord, Oktaviani, & Ruehe, 2010). Moreover, based on the result of a joint study between the Regional and Bilateral Center of the Ministry of Finance and the School of Postgraduate European Studies, Universitas Indonesia (Kementerian Keuangan RI, 2012), there are several weaknesses that hinder Indonesia economic relations with other countries, including the EU. (1) Indonesia's economic infrastructure is poor and does not support economic activities. This shortcoming is the one that is complained about most by Indonesia's economic partners. This includes the EU. Roads, port, and air transportation facilities; the energy supply; and telecommunications networks are all underdeveloped. According to a survey conducted by the WEF, Indonesia's infrastructure quality is still behind Singapore, Malaysia, and Thailand. A study conducted by the World Bank estimated that only around 55% of the roads in Indonesia are paved, which is much less than the percent of paved roads in Malaysia, the Philippines, and Thailand, all of which are approximately 80% paved. (2) Also, institutions in Indonesia are inefficient and not transparent, and there is a strong culture and practice of corruption which presents daunting obstacles for its economic partners. (3) Another issue is weak implementation of intellectual property rights (IPR) regulations. Even though Indonesia has various IPR regulations, the implementation there still allows frequent violations of IPR and law enforcement is not effective. (4) The quality of Indonesian products is often below the safety and health standards. Even if the standard is achieved, it is often inconsistent. (5) There are a number of bureaucratic obstacles, especially the time-consuming licensing problems that make it quite difficult and complicated to conduct business activities in Indonesia. "Doing Business" research conducted by the World Bank in 2012 showed that Indonesia still lagged behind Malaysia and Thailand, which was a month longer than Malaysia and four times longer than Thailand. (6) Technology is still one of the weakest elements in the Indonesian economy. Based on an analysis from the Global Competitiveness Report issued by the WEF in 2011, Indonesia was ranked 91 in terms of technology. It was far behind several ASEAN countries like Singapore, Malaysia, and Thailand.

In terms of GDP per capita, Indonesia is also behind Singapore, Brunei Darussalam, Thailand, and Malaysia. This is demonstrated in Figure 6.

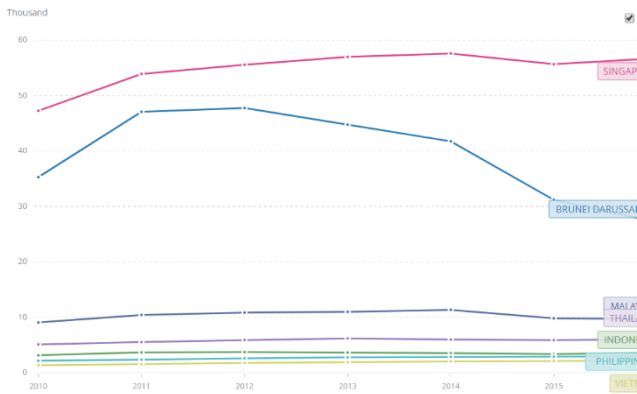


Figure 6 ASEAN GDP, 2010-2016 (Source: The World Bank).

In addition, sustainability also plays a significant role in the EU and Indonesia relations (Development Solutions, 2019, p. 32). Indonesia is a tropical country with a large number of natural resources, but it has a problem with chronic environmental degradation (Supamijoto, 2014). According to Tacconi et al., haze pollution from fires, forest degradation, and deforestation is one of the major sources of annual environmental problems in Indonesia (Supamijoto, 2014). The EU considers the issue of forest degradation and deforestation in Indonesia to have been triggered by land clearing and illegal logging (Supamijoto, 2014). However, the problem of deforestation is currently expanding due to the palm oil trade. According to the EU, palm oil has caused the most rapid rate of deforestation compared to other types of plants from 2008 to 2015, therefore assuming one of Indonesia's largest export commodities is unsustainable (VOA, 2019).

Moreover, in 2014 Indonesia issued a number of policies and regulations that limited trade and signaled an increasingly protectionist tendency in Indonesia. These policies include various import and export restrictions, as well as investment restrictions. The import limitation had a potential to affect the EU's main export products to Indonesia (Damuri, Atje, & Soedjito, 2014).

Hence, it is understandable that the EU's economic relations with other countries in ASEAN are indeed more significant than those with Indonesia. Indonesia's domestic condition is not favorable when compared to those other countries. Therefore, it is understandable that Indonesia was not a first priority for the EU when negotiating a bilateral FTA. It is noteworthy to be acknowledged to succeed the ongoing bilateral FTA negotiations and prevent failure as happened with the previous CEPA scoping. In addition, it can also be utilized as a reference for Indonesia to make improvements in the future so that it can compete with other ASEAN countries.

6. CONCLUSION

Economic relation between the EU-Indonesia is significant in supporting Indonesia's economic growth. The EU is Indonesia's main destination for non-oil and gas exports. It is also an important investment partner for Indonesia (Kementerian Keuangan RI, 2012). Hence, bilateral FTA with the EU should be a priority for Indonesia.

By analyzing the internal and external factors of the European Union, the reasons as to why Indonesia was not chosen by the EU as the first country in ASEAN to become its bilateral FTA partner is perceptible. From the internal factors of the EU, there were several reasons: (1) Indonesia is less popular in Europe; (2) the EU had experienced a trade deficit with Indonesia; (3) the EU was occupied with the European Parliament elections; (4) the EU conducted economic relations with many other countries in the world, hence it had to divide its priorities; and (5) the EU's perception of Indonesia related to environmental issues is also unfavorable.

From the external factors of the EU, there were two particular reasons that greatly influence the EU's decision not to prioritize Indonesia, i.e., the condition of Indonesia-EU economic relation and Indonesia's domestic condition. Indonesia is not the EU's primary trading partner in ASEAN. In terms of Indonesia's domestic condition, Indonesia's competitiveness and investment climate are not more favorable than other countries in ASEAN. In terms of GDP, Indonesia is also behind Singapore, Brunei Darussalam, Thailand, and Malaysia. Moreover, the policies and regulations issued by Indonesia in 2014 were also unfavorable for the EU's trade. For Indonesia, the EU is equally not a priority country to cooperate because Indonesia focuses on cooperation with countries in ASEAN and China. As an international actor, the EU is also less known in Indonesia.

Therefore, it can be inferred that the reason Indonesia was not chosen to be the first ASEAN bilateral FTA partner for the EU was not because Indonesia was not important. The reason was because Indonesia was not the top priority for the EU when bilateral FTAs were initiated in 2010.

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