

IV. THE INDONESIA ECONOMY AND TRADE DEVELOPMENT

A. Indonesia's Policies Against ASEAN Free Trade

To achieve economic prosperity, economic diplomacy has become an increasingly important part in many foreign policies around the world. One part of the economic diplomacy is diplomacy around trading. Foreign trade is one of the important variables of economic growth for an economy. It is not surprising that all countries strive to promote trade cooperation with the aim of encouraging economic growth. These objectives can be achieved by encouraging domestic exports while reducing the volume of imports, as it is understood by the mercantilist economists (Sabaruddin, 2015).

In 1993, Indonesia and 5 other ASEAN countries started to trade freely through a covenant known as AFTA (ASEAN Free Trade Agreement). AFTA which covered a trade liberalization agreement on good and services. This agreement could ultimately enhance market size and increase the competitiveness of countries product. The end of result in this agreement could increase the economic growth and welfare.

In the year 2008, Indonesian government issued Presidential Instruction (*Inpres*) No. 5 of 2008 on the 2008-2009 for economic program focus. In this instruction, the Government considerable efforts in improving national economic growth, preservation of natural resources, increasing energy security and environmental quality. Two years (*Inpres*) No. 5 of 2008 after issued, Ministry of

Trade formed the Directorate General of Standardization and Consumer Protection through the Minister of Finance Regulation No. 31 of 2010 and No. 57 of 2012 on the Organization and Administration of the Ministry of Commerce. This regulation was due to improve the competitiveness of exports, improve supervision and customer protection, as well as managers and security policy and the implementation of trade within the country.

In 2011, Government issued Presidential Instruction (Instruction) No. 11 of 2011 on the implementation of the AEC Blueprint commitments in effort to prepare for the ASEAN free trade. In this instruction, there are 12 priority sectors that would be integrated by the Government. The sector consisted of seven sectors of goods, namely the agriculture-industry, automotive, electronics, fisheries, rubber-based industry, wood-based industries, and textiles. Then, the rest was coming from the five service sectors, namely air transport, health, tourism, logistics, and information technology.

In May 2011, it was issued by Presidential Decree No. 32 in the year of 2011 about MP3EI 2011-2025. In this regulation, the Ministry of Industry through the acceleration and expansion policy in agricultural industry seek to encourage the development of supporting infrastructure in line with the Master Plan Program Expansion and Acceleration of Economic Development of Indonesia (MP3EI). In November 2011, there has been a meeting on ASEAN 19th ASEAN Secretariat from the ASEAN Expert Group on Competition (AEGC). In this summit, ASEAN

Economic Community (AEC) agreed that AEGC was the structural in ASEAN which handled the implementation of competition law. The structural had been initiated and promoted to all ASEAN countries.

In 2014, the government issued the Law No. 7 2014 on Trade. Article 74, paragraph 1, in order to develop exports, the government export guidance to businesses for expansion of market access for goods and services in domestic production. Article 22 paragraph 1 stated that in the context of development, empowerment and strengthening of domestic trade, government, local government, and/or other stakeholders individually or jointly strive to increase the use of domestic products.

All regulation papers were collected from authors (KEMENDAG, 2015; Masnur Tiurmaida Malau, 2015; Wastra, 2015). In that period of times, ASEAN countries have committed to liberalize trade and investment in logistics services by 2013. However, while some members have made reforms, others (notably Indonesia) have introduced restrictive regulations that contradict their commitments and the quality of logistics services—such as customs brokerage, freight forwarding, and express delivery. Indonesia has made impressive progress in both infrastructure development and legal reform.

B. Agricultural Commodities Policy in Terms of International Trade

In September 1994, the government issued a policy of export levies (the term at the time was an export tax) through MoF No. 439 / KMK.017 / 1994. In this policy,

PE CPO (Pungutan Expor Crude Palm Oil) and its processed approximately 40% -75%, which the policy applied only when the price of cooking oil in the country reached up to Rp 1,250 per kg (sale price) or Rp 1,187 per kg (price Belawan TGB). Two years after MoF No. 439 / KMK.017 / 1994, the government release MoF Letter No. 628 / KMK.017 / 1996, the policy that set the price of PE CPO 2.6%, 2.7% RBD PO (Refined, Bleached, Deodorized Palm Olein), Crude olein and RBD palm olein 2.9% 2.7%.

In 2001, the government issued a policy in terms of trade on palm oil, crude palm oil. The regulation was MoF No. 66 / KMK.017 / 2001 stipulated that the export of palm oil, crude palm oil and its derivatives charged with massive PE as follows: (1) Palm oil and palm oil 3% ore; CPO 3%; Crude olein (CRD olein) 1%; Crude Palm Oil bleached deodorized (RBD PO) 1% and Refined Bleached Deodorized palm oil (RBD olein) 1%. In 2002 the government through PMK No. 130 / PMK.010 / 2005 changed PE CPO from 3% to 1.5%.

In January 2008, the government cut soybean import duty from 10% to 0%. The aim of the policy was to reduce the cost of production of soy-based foods (such as soy sauce, tauco, soy milk and soy chips) due to a surge in soybean prices in the world market. This policy was temporary until the market price of soybeans in the world returns to normal. Then, in February 1st, 2008, the government bear the Value Added Tax (VAT) to 10 percent for cooking oil sold in the country both bulk and packaged.

This policy is aimed to curb the rise in cooking oil prices in the country as the impact of rising crude palm oil prices (CPO) in the world.

Not only on the regulation on soybean and cooking oil that was released by the government, but also on sugar commodities. Through Regulation No. 19 / M-DAG / PER / 5/2008 stated that white sugar to be imported must have ICUMSA between 70 IU to 200 IU. Then, white sugar can only be imported outside the period as follows 1 (one) month prior to the milling season people's sugar cane, and (2) two months after the milling season people's sugar.

In 2012, the government release Law No. 18 Year 2012 on food. In article 14 of this regulation, the import policy can be done with the following conditions: (1) The source of food supply comes from domestic production and reserves of national food, 2) In case the source of food supply is not sufficient, the food can be met with the food imports in accordance with the needs. Next, article 36 states that (1) Imported food can only be done if domestic food production is inadequate and / or cannot be produced in the country, (2) Imports of basic food can only be done if domestic food production and reserves of national food is not sufficient, (3) adequacy of domestic staple food production and government food reserves established by the Minister or a government agency that has the task of carrying out government duties in the field of food.

In 2014, the government release the Minister Decree No. 45 / M-DAG / PER / 8/2014 which is an amendment to the Regulation No. 25 / M-DAG / PER / 5/2014. In this decree, the farmers on benchmark prices (HPP) white sugar is Rp. 8,500 / kg. The

regulation also provided that the import of sugar is allowed if the price the farmer exceeds the limit specified HPP. Then, in the same year through law No. 18 of 2012 concerning food, the government regulate the export and import of rice by Minister of Trade No. 19 / M-DAG / PER / 3/2014 on Export and Import of Rice. These regulations were, (1) imports rice is done for the purposes of price stabilization, emergency relief, the poor, and food insecurity, (2) Rice Imports can only be done by the Public Company BULOG, (3) imports can only be done outside the period of one month before harvest, harvest season, and two months after harvest.