

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Dramatic growth in international trade over the last few decades has intensified political debate over the cost and benefit of trade openness. In the United State, for example the controversy surrounding the creation of NAFTA (North America Free Trade Agreement) in 1933 was especially intense, and similar argument has arisen over the issue of enlargement of the European Union and over attempts to reform Common Agricultural Policy. Rapid trade policy reform had also generated a significant political backlash in many developing nations. Moreover, recent years have witnessed violent protest and demonstration by various groups of countries that hope to disrupt meeting of the World Trade Organization (WTO) which is the only global institution promoting free trade in every aspect. Political leaders around the world frequently voice concerns about the negative effect of trade and the need to protect their firms and workers from foreign competition<sup>1</sup>. For example, it contributed substantially to the failure of the September 2003 Trade Ministerial Meeting in Cancun to reach agreement on how to proceed with the DDA (Doha Development Agenda), after which it took another nine months before a consensus as reached in the Doha Work Program, otherwise referred to as the July Framework Agreement<sup>2</sup>. The failure was caused by the rejection of people especially fisherman, labors, activists, and governments

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<sup>1</sup> Michael, J. Hiscox. *The Domestic Source of Economic Policies*, Edited by J. Ravenhill, Global Political Economy (New York: OXFORD University Press, 2005), Pg. 53.

<sup>2</sup> Kym, Anderson & Will, Martin, *Agriculture Trade Reform and the Doha Agenda*, Pg.1.

who mostly lived in various least developed countries rejecting the existence of WTO. The demonstration was to show that WTO already failed to bring their idea about sustainable growth and development for least developed country through trade liberalization.

One of the issues that always becomes hot topic in international economic sphere is about agriculture. It is known that when talking about food it talks about billions of people and millions of people who suffer and were dead caused by the lack of food. Moreover, the majority of the farmers especially in the developing countries still live below the poverty line.

Negotiation about food security is always the obstacle in every WTO ministerial in meeting its success. Million protesters all over the world always scream their demand to stop WTO agenda. In order to continue its struggle to liberalize agriculture sector through the basis of DDA (Doha Development Agenda), agriculture sector is always brought to the ministerial meeting agenda. After the deadlock faced in DDA and WTO ministerial meeting finally there is an agreement called Bali package. The meeting that had been successfully held in Indonesia exactly in Nusa Dua, Bali. The meeting held in Bali started on the 3<sup>rd</sup> of December 2013 and was planned to finish on 6<sup>th</sup> of December 2013, it released some agriculture policies. This meeting actually cannot be said giving a benefit to developing countries about their food security and public stock holding proposal. In addition, the continuation of this package brought into the next meeting in Nairobi, Kenya did not give any clear, firm and fair policy.

The meeting was held in Bali started on 3<sup>rd</sup> of December 2013 and was planned to finish on 6<sup>th</sup> of December 2013, but unfortunately because of some unpredicted situations, this forum needed to be delayed until 7<sup>th</sup> of December 2013. Bali was chosen by WTO to held this international ministerial conference forum by WTO and 160 ministers met in Bali not only discuss about developing countries proposal of food security but also to fix several multilateral trade issue contained in the Doha Development Agenda. The first is about *Trade Facilitation* which is generally talking about reaffirming and recalling the principle in Doha round about tariff and non-tariff barrier reduction and also transparency in multilateral trade. The Second is about *Agricultural* as well as cotton production which are important for developing also least developed countries. Than the is third talking about the *Least Developed Country Development Issue* which will help least developed country to make them easier to export their products to developed country.

The International Chamber of Commerce (ICC), which has been said as streamlining custom procedures, could add \$1 trillion and 21 million jobs to the world economy. It said the breakthrough would open the door to new trade talks<sup>3</sup>. However, most people in the world do not believe any more to WTO's promises and its vision to bring fairness in trade and prosperity to all people.

Agreement in the meeting is only some part of Doha Development Agenda. It can be said that Bali package is a part to reconstruct Doha

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<sup>3</sup> Eliot, Larry, India Strikes Deal With US Over Food Breathing New Life Into Doha Trade Talks. Retrieved from <http://www.theguardian.com/business/2014/nov/13/wto-food-security-us-india-trade-talks-doha-round>, (2014, Nov 13).

Development round held in Qatar. So, this meeting will clearly make WTO's credibility in the world forum back on stage which was broken after the failure of 12 year tread round of Doha Development.

In the Bali package forum, it was not absolutely running smoothly like the other WTO ministerial meetings before and almost ended up with another failure. This forum needed to postpone for several days due to issues of food security proposed by India. India and the other developing countries had a different perspective from develop countries especially United States with its industrial interest about how much subsidy should be given. The main content of proposal that have been made by the G33<sup>4</sup> with the idea of India and delivered in the WTO ministerial meeting, India with other 32 countries which had a demand to increase total subsidy for farmer from 10% according to Agreement on Agriculture (AoA)<sup>5</sup> of WTO become 15% permanently without any exception. Then, United States and other developed states were reducing their demands by giving permission for developing countries to give 15% for only 4 years. Here other G33 member states including Indonesia agreed with the offer of developed countries, but only India still insisted with its decision. It believed that food security was not for

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<sup>4</sup> G33 is a group of developing countries that face similar problem toward economic and development issues that until now is chaired by Indonesia.

<sup>5</sup> According to the information of WTO website document The Agreement on Agriculture, (the "Agreement"), came into force on 1 January 1995. The preamble to the Agreement recognizes that the agreed long-term objective of the reform process initiated by the Uruguay Round reform programme is to establish a fair and market-oriented agricultural trading system. This agreement is to control trade and non-trade activity of agricultural sector in country such as control the government protection in demand to reducing it time over time, export subsidies and market access, and non-trade activity such as including food security and the need to protect the environment, and provides special and differential treatment for developing countries, including an improvement in the opportunities and terms of access for agricultural products of particular export interest to these Members.

negotiation. It is none that the system in the forum is not based on the vote. So, in order to make the ratification passed, it needs all states to sign the package.

After closed-door meetings that lasted well into the early hours of Friday, the negotiators in Bali finally came to a provisional agreement, which was due to be finalized on Friday evening. In the last minute, India tense finally reduced and agreed to a four-year peace clause, meaning that they would not challenge India's food security measures before December 2017. In return, India has vowed to ensure that its policies "do not distort trade or adversely affect the food security of other [WTO] members", among a few other conditions<sup>6</sup>. All of the policies were already ratified by developed states said by ex-Trade Minister Gita Wirjawan<sup>7</sup>.

Indonesia is the one who proposed high level of ministerial conference to be held in Bali under the auspices of WTO. Indonesia is one of the states which really support the implementation of Bali Package even there are several protests from scholars, Non-governmental Organization and people. They held several demonstrations toward this conference. They were pessimistic about the content of the Bali package itself. They believe this conference will become a new imperialism especially in the developing countries.

If seen more deeply about what happen in Indonesia's agricultural sector after the ratification of treaty of Agreement on Agriculture (AoA), Indonesia

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<sup>6</sup> McClanahan, Paige, Why the WTO Agreement in Bali has Finally Helped Developing Countries. Retrieved from <http://www.theguardian.com/global-development/poverty-matters/2013/dec/06/wto-agreement-bali-helped-developing-countries-india>

<sup>7</sup> Muliarta. WTO Capai Kesepakatan Perdagangan Global di Bali . Retrieved from <http://www.voaindonesia.com/content/wto-capai-kesepakatan-perdagangan-global/1805665.html>

becomes dependent on agricultural import from other countries. There are several products that are still imported such as rice, corn, meat, chicken, salt, milk, onion and there are other products which are easily produced in Indonesia. Since Indonesia ratified and joined WTO to liberate its agricultural sectors, it caused a significant increment in agricultural sector import followed by significant decreasing of food subsidy in some commodities that led to a decreasing on farmer's revenue in the country. Therefore, it led to the protests against trade liberalization by the government.

Statistic Body Center (BPS) released the results of the agricultural census in 2013 with the total number of farming households of about 26.14 million. Most of the workers in the agricultural sector live below the poverty line.

The head of BPS Suyamin Said "Many workers in the agricultural sector live below the poverty line. They became laborers. The poor indeed many in this sector." He said it when announcing the results of agricultural census 2013 in Jakarta, Tuesday (08/12/2014).

Furthermore, he said, the labor absorption in this sector was quite large about 34.6 percent or 38.07 million people out of a total labor force in Indonesia. While the agricultural sector's contribution to Gross Domestic Product (GDP) amounted to 14.43 percent in the second quarter of 2014. Unfortunately, the trend in the contribution of the sector in the portion of the GDP at current prices slumped during the decade of the previous 15.19 percent<sup>8</sup>.

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<sup>8</sup> Fiki, Ariyanti, Sensus BPS: Penduduk Miskin RI Sebagian Besar Petani . Retrieved from <http://bisnis.liputan6.com/read/2089809/sensus-bps-penduduk-miskin-ri-sebagian-besar-petani>

Every data that released by BPS must be used by the government to analyze and determine the foreign policy outcome because the data represented what Indonesia people actually need. So, in order to impact foreign policy that has been chosen by Indonesia government in the World Trade Organization 9<sup>th</sup> high level ministerial meeting it is better to understand Indonesia domestic condition and international position. Then as Indonesia itself was not so different from India which really depends on the agriculture factor. It means that if Indonesia just ratified the treaty it could kill Indonesia's agriculture sector. Lot of Indonesia people are only traditional and small farmers, and they are depending on it for their livelihoods. So, by ratifying the treaty it is like as selling it farmers into world market mechanism.

Developed states see the opportunity in countries like India and Indonesia. As always, Indonesia and India are two of the largest population in the world meaning that both countries are big market for United States food grain production and other products. With force of both states to ratify the treaty, it will give a huge benefit for United States.

## **1.2 Research Question**

How is the impact from the implementation of Bali Package toward Indonesia position and Indonesia's agriculture sector?

## **1.3 Theory**

### **1.3.1 World System Theory**

World system theory is a theory that part of structuralism approach of Karl Marx, which is an idea of capitalism criticism. Structuralism approach argues that

the system of capitalism world is built in order to give advantage to certain class that make the world system that unfair. In the international relation the relation among actors is created the international structure based on the capitalist that cannot be avoided. That relation is controlled by the institution work as puppet to spread the idea of capitalism. Structuralism believe that big institution that born from the idea of capitalism like WTO, World Bank, IMF is dominated by the elite group and hegemon country. So, that group cannot be trusted to help least developed country or reduce poverty because back in the fundamental of capitalism idea is only to gain profit.

World system theory is a most influenced theory in structuralism approach based on the Immanuel Wallerstein thought. This idea was born based on the critical view of modernization theory and also dependency theory<sup>9</sup>. World Capitalist System Theory is world systems theory that view the prospects and conditions of country development is fundamentally shaped by economic processes and patterns of relationships between countries on a world scale. This theory emphasizes that it is futile to analyze or to form development by focusing on the level of individual country where every state is rooted in a world system. The world system is basically started from the sixteenth (Berutu, 2015) century, where only located in part of the world, namely Europe and America that later extend over time that spans the whole world became the world economy and will always be the capitalist economy world. According to Immanuel Wallerstein world system is "world economy" which is integrated by the market, not by

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<sup>9</sup> Leli, Yulifiar, Sosiologi Dan Antropologi Pembangunan, Pg 32



politics, where two or more regions are interdependent to fulfill their need such as food, oil, and protection and or two or more policies that compete to dominate without the emergence of a single center forever.<sup>10</sup>

Immanuel Wallerstein Such a world economy-of which capitalism from the sixteenth century to the present has been (according to Wallerstein) the only long-lasting historical instance-is based upon a geographically differentiated division of labor, featuring three main zones which is divides the world capitalist economy: the Periphery area, Semi-periphery area, and the Core area.<sup>11</sup>

Simply put, these three areas can be distinguished by the dominance in the area. Core is independent countries that dominate other countries. Semi peripheries are among the countries that are dominated by one (or more) countries, but these countries also dominate some other countries. Meanwhile, the Periphery is among the countries that are dominated by other countries without dominating other countries. Some traits are the indicators of a country categorized as the Periphery countries such as: having cheap labor, exporting raw materials, and producing agricultural products. The central government in this country is weak or controlled by other countries. Then characteristics of Semi-periphery countries such as: having an advanced economy and diverse, but not dominant in international trade. Semi-periphery countries on the one hand to fend off political pressure, especially in the Periphery on the other side against the Core countries

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<sup>10</sup> Junaedi Berutu, Keputusan India Menyetujui Kebijakan Subsidi in The Bali Package. eJournal Ilmu Hubungan Internasional, Volume 3, Nomor 3, 2015, Pg 380.

<sup>11</sup> Theda Skocpol, Wallerstein's World Capitalist System: A Theoretical and Historical Critique. American Journal of Sociology, 1977, Pg 1077.

so as to prevent a split. Meanwhile, the characteristics of Core countries are such as: Being active in promoting the accumulation of capital internally through tax policy, purchasing power of the government, sponsoring research and development, financing the construction of infrastructure, and prioritizing social order to minimize the demands. Core countries also promote the accumulation of capital in the world economy. Core countries have the political power, economic and military to push the exchange rate that is not balanced.

In his thought Immanuel Wallerstein believes that country can have decreasing or increasing class condition, core becomes a semi-periphery or periphery become semi-periphery<sup>12</sup>. These are three strategists that can implement by state in order to up their class.

1. The role of state here is very important not just as a facilitator but as a initiator in order to develop their state. So in order to up their class state need to take any opportunity that has. In the world system there will happen a condition which main product is very cheap and industrial product is very expensive, this condition bring state into a condition which need to do industrialization.
2. Second, through invitation of several of Multinational Corporation (MNC) that need expand their business because of the competitiveness in the core country. In this case, developing country can pull foreign investor to invest. This condition bring MNC to invite industries in the

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<sup>12</sup> Arief Budiman, Teori Pembangunan Dunia Ketiga, (Jakarta: PT Gramedia Pustaka Utama, 1995), Pg.110

periphery country to do cooperation, this condition can bring development to the periphery country become semi-periphery country. But Immanuel wallerstein believe that in order to get full advantage from this cooperation state have a vital role in order to coordinate and control to protect domestic industries.

3. Third, state need to have a radical policy in order to develop their domestic market and can be free from develop state domination. One of the strategies is with internal policy such as dumping policy, or protection in some production from Import surge in domestic market can give loose to state economy. Protection is the only vanguard in the side of economic policy which it is the government authority. Another strategy is through the government helps by giving a capital to increase domestic industries so they can compete with foreign company. Capital here can be money or such as developing domestic technology investment that developed by domestic expert, beside that support facilitation is also important such as bureaucracy, infrastructure and human resource development to develop.

Capitalism is also an economic theory that derives from neo liberalism theory. This research also analyzes the theory neo-liberalism which is proposed by Reagan and Margareth Thatcher after the agreement of Breeton Woods. So, international regime was established in 1944, and the role of state is minimized as much as possible. The point is the need to lose all policies that are force by state,

so the market can determine its own destiny and advocate states to implement their internal policy according to neo-liberalism policy, as follows.<sup>13</sup>.

1. Trade liberalization having a goal to erase any policy that is protecting domestic industries.
2. Investment liberalization
3. Financial liberalization.
4. Privatizations in the form of state company, staff and public service selling to private sector.
5. Cutting the public budget for the social service
6. Currency devaluation.
7. Low wage labor

The establishment of WTO is a state of consciousness. State realizes that because of the development of trade relation and the development of dependency between state, there is a need of an organization to promote and to control any trade rules and to back the trade rules up with powerful dispute settlement system. So, in this case, WTO itself tries to be a facilitator for international economic growth by promoting international trade, and the system is known as free trade system. Therefore, in the previous high level ministerial meeting held in Nusa Dua, Bali, the proposal tends to gain social prosperity for people especially people in LDCs (Least Developed Country) by promoting free trade with reducing any trade barriers in every sector. Ironically, a series of liberalization penetration and the entry of neo-liberal ideology to the agricultural sector receive less attention by state. Once the existence of the GATT replaced WTO in 1995, almost immediately, the agricultural sector was in the grip of a multilateral regime

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<sup>13</sup> Hasibuan, A. I, Post Food Policy Ratification of the Agreement, *Jurnal Kajian Politik Dan Masalah Pembangunan*, 2015, Pg. 1635

through an agreement to liberalize agriculture sector (Agreement on Agriculture / AoA)<sup>14</sup>. With this condition where liberalization of agriculture is forced to be implemented without considering any negative impact there will be a marginalized actor such as developing countries who cannot compete with developed countries. So, there will be the increment of import product to domestic market that will crush domestic market.

#### **1.4 Methodology**

This research is using qualitative research methodology and this is a research strategy which is usually emphasized on word rather than quantification in the collection of data. Qualitative research focuses on key features of research design that may identify a study as ‘qualitative’, including a concern with ‘what’ ‘why’ and ‘how’ questions rather than ‘how many’, a focus on processes, and the flexible nature of qualitative research design.

#### **1.5 Hypothesis**

According to the theory framework chosen and the background, the researcher will formulate the research question.

- Indonesia position in the meeting tries to be neutral, caused current world condition which is requiring Indonesia to do it.
- Four year peace clause proposal is only a trade off from develop state to get trade facilitation that used to exploit developing state.

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<sup>14</sup> Ibid.,

- Indonesia try to takeoff develop state domination by doing strategies of radical policy in order to be Semi-Periphery country.

## **1.6 Range of Research**

This research is focusing about Agriculture agreement on Bali and Indonesia agriculture condition after and before the meeting is held.

## **1.7 Purposes of Research**

This research aims to achieve some purposes as follows:

1. To get through and understand on Indonesia decision on the World Trade Organization 9<sup>th</sup> Ministerial Meeting agreement.
2. To analyze Indonesia decision on the World Trade Organization 9<sup>th</sup> Ministerial Meeting agreement especially its Strength, Weakness, Opportunity, Threats for Indonesia's agriculture sector.
3. Understanding what is the implication of World Trade Organization 9<sup>th</sup> Ministerial Meeting agreement to Indonesia's agriculture sector.

## **1.8 Writing Organization**

### **Chapter I**

This chapter contains background of the research that the researcher would analyze, research question, theory that the researcher would use, the purpose of the research and methodology of the research. In this case the researcher uses qualitative methodology.

### **Chapter II**

In this chapter, the researcher will put the data about the condition of Indonesia's agriculture sector in order to understand the Indonesia agriculture environment condition.

### **Chapter III**

In this chapter, the researcher will put the relation between Indonesia with WTO in agricultural sector until the ninth level of WTO Bali ministerial meeting.

### **Chapter IV**

In this chapter the researcher analyzes the research question about Indonesia position in the meeting and also the impact for Indonesia agricultural sector by implementing Bali package. It's using the theory of world system theory to analyze current situation why Indonesia tends to sign the WTO agriculture treaty.

### **Chapter V**

This chapter is conclusion of the research according to the material that is already explained in the previous chapter.