

CHAPTER IV

INDONESIA POSITION IN AND AFTER BALI PACKAGE AGREEMENT.

This chapter will explain about the position that been taken by Indonesia government and also the impact and opportunity for Indonesia's agriculture sector by implementing Bali package of 9th WTO ministerial meeting. Which is here Indonesia have position as host country and lead the run of the meeting. At the first place Indonesia position is Indonesia is give full support to the India with G-33 proposal but close to the dead line Indonesia also another G-33 country plus Russia and China change the position to convince India to soften it position to agree the proposal that offer by United States. Here writers will use the theory framework of world System theory to explain current situation in international economic to analyze the position of Indonesia's policy attachment with WTO and also the impact.

4.1 Analyzing Indonesia Position in WTO System

In the WTO ministerial meeting held in Bali, Indonesia worked as host of the world trade event. It was led by Mr. Gita Wirjawan who was Indonesia's trade minister at that time. Ministerial Meeting in Indonesia was based on the proposal submitted by Indonesia government to the WTO (World Trade Organization) and was approved by the council board. Indonesia ended 12 years of stagnancy without multilateral agreement despite only on some issues off DDA agreed. There are three Doha Agenda as agreed in the agreement, namely: Trade Facilitations, Agriculture (Including Cotton), and Development and the Least

Developed Countries (LDC) Issues. Policy of farm subsidies is on the agenda of Agriculture in agreement Public stockholding for Food Security Purposes.

It can be seen from WTO ministerial meeting held in Bali that it became the prove of Indonesia seriousness and the ability in the aspect of international economic agreements and cooperation. Effective implementation of liberalization is expected by Indonesia government to be an instrument to gain benefit such as foreign investment, infrastructure development, technology transfer, market access, especially trading of Indonesian industry. The improving of Indonesia economic bargaining power and opportunity to become a key player of a bridge between developed and developing countries is also a prove that Indonesia has an important role in international community.

Indonesia has two important role and should be a key in the Bali ministerial meeting negotiations. First, Indonesia is a mandate of developing countries who joined the group G-33 with their proposal of public stock holding for food security. The issue of agriculture is a very important issue for Indonesia because agriculture is one of Indonesian strategic importance sectors for national development. The agricultural sector not only as a provider of food, but also a source of livelihood for the majority of the Indonesian population. Clearly Indonesia show the majority of employment in the agricultural sector held by 35 percent, or 39.7 million people, followed by trade sector by 21 percent. This means that the agricultural sector is still the largest absorption in national employment. Moreover, the performance of Indonesia's agriculture sectors is not that good. It can be seen from the contribution of agriculture to GDP in the period

of 2004-2012 Indonesia's Gross Domestic Product (GDP) was on average by 14 percent. The magnitude of this contribution is the third largest after the manufacturing sector (27%) and trade, hotels and restaurants (15%). However, when viewed in the subsector Indonesia government need to be very cautious in determining agricultural development policy, especially for food crops due to only fishing is the one that experienced an increase in the context of the contribution to Indonesia GDP and the rest declined. For example, the performance of food crops sector from 2004 to 2012 decreased from 50% to 48%. This decrease also occurred in other subsector like plantation. Another problem occurred when a whole total of Indonesia farmer household is decreasing significantly about 16 percent since agriculture census in 2003 until 2013, from 31.232,18 become 26.135,47. Moreover, farmers that had land below 5 ha which are were also categorized as peasants were 14.622.396 or almost half of total famer households. However, ironically the land owners of above 10 ha increase significantly, especially owner that had land more than 30 ha that, of course, it is owned by huge company. There is a gap between farmer and peasant in Indonesia, like big company that has a large farming field its increasing but still the peasant is still the biggest contribution in Indonesia farmer household. So, that is why Indonesia should think rationally about its domestic condition before thinking to make a decision.

Second, the position faced by Indonesia acted as the actor that needed to be neutral and to be a connector between developed country and developing country because Indonesia acted as a host country. So, it would be hard to be in

one side of parties. However sovereignty should be not as a bargaining tool, but acted as a host country and led the ministerial meeting in which Indonesia actually could drive the run of the meeting based on the developing country interest. However in the last minute Indonesia became pragmatist by choosing to agree the WTO agreement, especially about food stockholding agreement. It was just like trade ministry at that time “After did long negotiation, ministry of WTO agreed to give a flexibility for developing country to implement food stockholding program” said, Gita Wirjawan⁶⁴.

If Indonesia as the head of G-33 and also host country of 9th WTO ministerial meeting did not agree the proposal, so it was not possible that the deadlock of Doha Development Agenda remained continued, but on the other side, food security and sovereignty in Indonesia will be guaranteed. Indonesia position is rather to agree and to prioritize the success of Bali conference because the long term option that Indonesia still wants to continue its role in world system as a Semi-Periphery country and seems slowly to want to show its credibility to become Semi-Periphery country in world economy through the development of industrial sector rather than agriculture sector. Because one issue of agriculture remains in deadlock, it means other issue such as Trade Facilitation (TF), and Least Developed Countries (LDCs) are also cancelled. Indonesia seems to be tempted about the concept of Trade Facilitation (TF), and also market access. Indonesia still gas a problem in determining market for its processed goods or raw

⁶⁴ Aan, KTM ke-9 Ditutup, WTO Sepakati Paket Bali. Accessed from <http://www.politikindonesia.com/m/index.php?ctn=1&k=politik&i=51028>, KTM ke-9 Ditutup, WTO Sepakati Paket Bali, 2013,

goods caused by the small market access that faced by Indonesia. It gives disadvantage for Indonesia product because it cannot enter the chance to compete in foreign market caused by a lot of barriers need to face. World system nowadays is already taken by the system of world capitalism in every aspect cases the interdependency among countries. So, nowadays it is hard for one country to stand by itself. It is also a reason why Indonesia agreed Bali package, even though the Indonesia food security and sovereignty are still guaranteed for developing countries because they are allowed to give agriculture subsidy, but the problem is only for 2017.

Moreover, with WTO success in ministerial meeting in Bali, it showed the Indonesia credibility in supporting market capitalism concept. Because in the WTO itself is attended by lot of important people like 103 ministers, 349 Non-governmental organizations, 175 Delegations” and thousands of investor around the world who watched and observed the run of this meeting, it directly will increase the Indonesia leverage in business world which will bring foreign investors to come in. Because the essence of capitalism is everything given by market, it is so interesting for huge transnational company. This is what will happen if the liberalization comes in agriculture sector, Trade liberalization will erase any domestic policy that is protecting domestic industries, privatizations of big company to the country assets, and Low wage labors. Subsidies policy will be prohibited by WTO the next four years and there is no solution toward agriculture issue. Subsidy is a domestic policy that protecting local farmer. Another fact is the increasing of land owners that have land more than 10 ha is become and the one

who only has 5 ha is decreasing and a becoming clear image that show about privatization condition.

Decision that had been made by Indonesia is by changing its position, it is because Indonesia is dependence and rooted in capitalism world which is WTO is international trade organization who support market liberalization through trade by supporting the free flow of goods and services which also need a support of members to achieve its goals. One support that can be done by a country is by adapting its domestic policy following international trade policy by WTO. This adaption will bring a harmony in the world economy with domestic economy of its members.

The position that has been taken by Indonesia in the WTO Ministerial Meeting is saving Indonesia position in capitalism world when for almost 8 years in the Susilo Bambang Yudhoyono administration there is already building the image in international community. Indonesia is already active giving its role in international level. Moreover Indonesia itself is the one that purposed a proposal to hold ministerial meeting in Indonesia and promised to bring an agreement in Bali. Not only its role in the international politics but, Indonesia also active in the international trade because export and import are of Indonesia main revenue. If Indonesia still wants join it part in international level of course it should be nice with the idea of liberalism. Even though Indonesia is a Periphery country but there is a dream i.e to be a Semi-Periphery country. A periphery country has a weak government which is fragile with political and economic pressure by foreign

country especially core country and that category is matched with the Indonesia current condition.

Indonesia export development can be categorized as Semi-Periphery country but it is still far from the early development as semi-periphery country. Viewing from the export condition, Indonesia is started to export good processed rather than raw goods. However, still the major export commodity is still dominated by the raw goods.

Table 12.4.1 List of Indonesia Main Export Commodity Non-Energy 2013

No	Commodity	In US\$ Year 2013
1	Coal	20,254.9
2	Coconut Oil	12,522.3
3	Cloth	6,302.9
4	Electricity Tools	5,387.3
5	Crumb Rubber	5,606.1
6	Foot wear	3,158.9
7	Paper and goods made of paper	3,149.5
8	Steel	2,231.0
9	Organic Chemicals	2,212.0
10	Audio Visual	3,180.3
11	4 Wheel Motor Vehicles or More	2,016.1
12	Artificial Resin, Plastic Materials	2,110.0
13	Plywood	1,777.2
14	Articles of rubber	2,020.6
15	Articles of Precious Metals	143.9

Source: Foreign trade statistical bulletin, catalog bps :8202002, published by : BPS Indonesia, printed by Cv mashadito intan prima

From the table 12.4.1, majority of Indonesia export commodity is still dominate by the commodity of coal and coconut oil but there are some commodities started to increase such as clothes, electricity tools, even though the value is still far from coal or coconut oil.

Indonesia's state export target state are as follows: United States, Japan, Germany, Italy, Malaysia, Belgium, England, Russia, Egypt, Morocco, India, Taiwan, Canada, Australia, Georgia, Singapore, Ecuador, France, South Africa, Thailand, Taiwan, China, Afghanistan, Australia, Philippines, Hong Kong.⁶⁵

It is already told before, that Indonesia is not yet categorized as a full semi-periphery country, but slowly Indonesia seems too start to establish ambition as a Semi-Periphery country. If Indonesia keep marginalized it agriculture sector it is not possible there will be an economic shifting from agriculture country be an industrial country. Therefore, Indonesia cannot just release the offer from developed state in which Indonesia really needed other Bali agreement such as trade facilitation that will help local industries to find their foreign market where Indonesia is in the era of industrialization but still has a problem in exporting its products because of the non-tariff barrier implemented by other countries.

However, it needs to remember that agriculture is still important because majority of Indonesia farmers is a small farmer or peasants that need government help and most of them is categorize as poor people who live below poverty line. As a host country, Indonesia actually can hold the position with India to protect the food security of public stockholding proposal because both countries have the same condition, it also needs to remember that become Semi-Periphery country does not mean agriculture sector is marginalized. It can be seen from the India position even though India is a Semi-Periphery country but it does not marginalize agriculture sector. So, the action of India in the meeting is logical. This condition

⁶⁵ Ministry Of Trade Republic Of Indonesia, Negara Tujuan Ekspor 10 Komoditi Potensial,

should be pushed to Indonesia to strongly support the G-33 proposal rather does an opposite action by supporting United State with its peace clause offer. The making of Peace clause agreement is also sign of India that developing country can give more than 10% subsidy from its national output without getting disrupt from other country, but there are only 4 years limited time. Actually, Indonesia has a chance to become a vanguard to support developing country interest in WTO institution, because Indonesia has enough experience in international cooperation such as Indonesia initiative to coordinate 32 countries called G-33. Actually this could be a moment for Indonesia with developing countries to develop its economic diplomacy together against developed countries so in the future the coalition, cooperation, and coordination among developing countries will develop and be stronger as things which are needed in the WTO negotiation.

4.2 The Impact after the Implementation of Bali Package

Based on Indonesia's agriculture policy, Indonesia give three subsidies such as, fertilizer subsidy, seed subsidy, and rice price subsidy. Subsidy policy that has been given by Indonesia government is very needed for Indonesia food security. Providing subsidies for fertilizer and seed is necessary to support national food security by the 6 right principles i.e.: type, quantity, price, place, time, and quality. It can help farmers to get fertilizers at affordable prices so that in the future hopefully it is able to increase farmers' income⁶⁶. Guarantee on a stable selling price is also very important for farmers because of the nature

⁶⁶ Fauzi Aziz, *Memperindag Mengeluarkan Peraturan Baru Tentang Pengadaan Dan Penyaluran Pupuk Bersubsidi*, www.kemenperin.go.id/artikel/591/Memperindag-mengeluarkan-peraturan-baru-tentang-pengadaan-dan-penyaluran-pupuk-bersubsidi, Jakarta, 2003

conditions and fluctuations in agricultural price. Therefore, farmer does not suffer from any loss from it.

However, it needs to underline that Indonesia agriculture subsidies are still very weak in which a further study is needed to make a comprehensive policy, so there will be no missing in subsidy distribution. Therefore, agriculture subsidy distribution will be right and at maximum. For example, there are still many shortages of fertilizer and also the distribution goes to the improper hand. There is absence of farmer definition in the ministerial decree 70 / MPP / kep / 2/2003, concerning about the subsidy procurement and distribution of fertilizer for the agricultural sector. So sometimes the fertilizer subsidy could fall into large agriculture companies, such as data expressed above, about 30% fertilizer subsidy is purchased by large company.

Second scarcity condition of fertilizer subsidy in the field is forced by some of internal problems such as, government policy that is still messy, the low supervision in the fertilizer subsidy distribution and also condition of Indonesia farmer resources in which Indonesia farmer cannot make a plantation planning. So, sometimes farmers use too much fertilizer, which is not based what is needed. Government also has a role in the fertilizer scarcity because after fertilizer is produced, it cannot be distributed before the government policy is made⁶⁷.

Domestic support from government is very important, and is needed by its farmers. So, it is impossible to eliminate its domestic subsidy. Especially for the

⁶⁷ Risbiani Fardaniah, Ini Penyebab Kelangkaan Pupuk, www.antaranews.com/berita/48775/ini-penyebab-kelangkaan.pupuk.htm, 2015,

rice price stabilization, after the messy condition in the seed and fertilizer subsidy, farmer needs a stable selling price so there is no any loss. Subsidy distribution is needed by developing countries because agriculture is the main economic sector and very sensitive concerning several of parties. Even super power state like United States which rapidly spread the ideology of liberalization also gives agriculture subsidy so they can be competitive when facing global market.

The elimination of domestic subsidy causes farmer to use a chemical fertilizer that is very bad in the long term use. If government still forced its farmer to use a non-subsidy organic fertilizer, they will lose the competition with imported product. Price stability and on time harvesting time is actually what farmer needed, so it is actually what government should concern about. Beside the development of agricultural technology, infrastructure also needs to be concerned because it will support the farmer productivity. Now Indonesia is not ready to do full agriculture liberalization and if it is forced to follow market scheme, it is possible there will be a huge decreasing in total farmer in Indonesia, of course it effects in the productivity and import condition.

So, in order to minimize future impact of the subsidy elimination Indonesia government has homework in order to protect its agricultural market. This becomes homework for the next presidential administration that is Jokowi administration to develop Indonesia agriculture sector. In order to be a Semi-Periphery country it does not mean that state needs to marginalize agriculture sector mirrored from India condition. India is Semi-Periphery country but its agriculture is the main issue for the government concern.

In order to be Semi-Periphery country, Indonesia need to do import substitution using Immanuel Wallerstein. Based on the world system theory a state is not just supporting actor in international relation, but it has major role in state development through becoming a facilitator for their domestic market. So the policy impact after the agreement has been implemented is in the 2014 in the Joko Widodo administration government released the program called “*NAWACITA*” which becomes a priority agenda for Joko widodo administration. Agriculture is one of the important thing in the Joko Widodo administration agenda, whose the goal is to make a food sovereignty, like what Joko Widodo said in the *Rencana Pembangunan Jangka Menengah Nasional (RPJMN) 2015-2019* “there are four main priorities which become Jokowi-Jusuf Kalla administration and government main concern. That priority is food sovereignty, energy sovereignty, maritime, tourism, and industry, they key is in the public policy, if it is rightly done we can be developed state.”⁶⁸ That statement clearly shows the intention of Indonesia government to lift up its class. So there are strategies that have been done by Indonesia government in order to achieve that ambition.

State needs to take every opportunity that it has in order to develop their domestic market in the pressure of international trade liberalization. One the efforts from Indonesia government is in the international agreement in which Indonesia is continuing it agriculture proposal in the WTO to be agreed and find the permanent solution in the name of farmer prosperity. Another step that has

⁶⁸ Angga Sukmawijaya, Jokowi Fokuskan Anggaran 2015 pada Dua Sektor, Retrieved from <https://m.tempo.co/amphtml/read/news/2014/12/24/090630787/jokowi-fokuskan-anggaran-2015-pada-dua-sektor>, 2014,

been done by Indonesia is by releasing a comprehensive policy which is to stop any food import from foreign company in order to achieve food sovereignty. Through program of “*Swasembada Pangan*” Joko Widodo believes that it is the most important thing in order to stop import surge of agriculture. In the Joko Widodo Statement about “*Swasembada Pangan*”, “our country is rich with its natural resources, we are agriculture country but in every commodities is imported, started from rice, sugar, soy bean, corn, and more, what else that we do not import nowadays, even though in the fact we have potential to do “*Swasembada Pangan*”, we have ability to stand by ourselves but we need a right public policy” Joko Widodo said⁶⁹. Like the data shown in chapter II Indonesia agriculture export-import is deficit in many agriculture commodities especially food crops and compared with other countries Indonesia is the biggest among them. “January-October 2014 imported about \$149.7 trillion dollars, and we are the biggest non-oil import market compared to China, second Japan, and the third is Singapore”, said the Head of BPS Suryamin⁷⁰. So this is the reason why Joko Widodo tries to use Indonesia’s agriculture ability to stop import surge.

Next strategy is through agriculture sector investment, not only to take the opportunity in the international agreement but also need to have a comprehensive policy toward domestic agriculture sector. Investment is very important in order to bring development to Indonesia’s agriculture sector. One of Joko Widodo strategies is by implementing domestic investment through government money,

⁶⁹ Gera, I, Presiden Jokowi: Swasembada Pangan, Salah Satu Cara Tekan Impor. Retrieved from <http://www.voaindonesia.com/a/Presiden-Jokowi-Swasembada-Pangan-Salah-Satu-Cara-Tekan-Impor/2563965.html>, 2014,

⁷⁰ Ibid.,

also private investment, and foreign investment. Joko Widodo's effort in order to bring investor is with bureaucracy revolution and one of the programs is one door service for investor⁷¹. Another program that has been released in 2016 is tax amnesty which has a goal in order to bring businessman money saved in the foreign bank and brought into domestic bank and invested in the domestic industry. Like the data shown in Chapter II almost every commodity is imported, meaning that national agriculture producer is cannot fulfill national demand. So, in order to fulfill it, the way is through import policy. Joko Widodo hopes that domestic business man started to realize that there is a huge market always used by foreign trader, and it is a huge market and profit. So, being invested by domestic business money, it will not be brought to foreign country, but it will used for the development of Indonesia. "Now we are in the development era of infrastructure, such as electricity, harbor, industrial area, or even agriculture sector, and we need direct investment in this area. It is because in the 5 years money from government is not enough to develop the national industry which needs IDR 4,900 triliun. And APBN only prepare IDR 1,500 triliun. So, this is a chance for national businessman, local businessman to involve. Take a chance, bring money in and invested. Can be in infrastructure, garment industries, food industries, fishing industries" Said Joko Widodo⁷².

Another effort in term of foreign investment is through bilateral and multilateral cooperation. One of the examples is Indonesia has an agriculture

⁷¹ Jalan Perubahan Untuk Indonesia Yang Berdaulat, Mandiri dan Berkepribadian, Jakarta, 2014,

⁷² Jajeli, R, Jokowi Ajak Pengusaha Investasi di Sektor Pertanian Hingga Infrastruktur, Retrieved from <http://finance.detik.com/read/2016/07/16/003755/3254603/4/jokowi-ajak-pengusaha-investasi-di-sektor-pertanian-hingga-infrastruktur>, 2016,

agreement with Ukraine, in order to develop agriculture sector especially through research and agriculture agreement, or harvest exchange, cooperation in poultry and animal quarantine, development of food produced goods, and also agriculture investment⁷³.

The third strategy in order to lift up Indonesia class to become Semi-Periphery country is through national producer protection. It is because of according to the national legal trade rule that say tariff or dumping practice is prohibited. The only vanguard to the Indonesia's agriculture sector is by implementing subsidy practice in order to help farmer to increase their productivity. Because the practice of giving subsidy is threatening international capitalism market that determines it can distort market, so for this four years peace clause Indonesia needs to use this opportunity as much as it can before the peace clause is over. Otherwise, another solution is to find permanent solution that fit for developing country agriculture sector development. So, after the implementation of Bali Package, Indonesia keeps continuing to give production facility i.e. seed and fertilizer subsidy. However, subsidy of buying harvest by administrated price is erased. Moreover, the condition of distribution changes and government seem to upgrade the distribution in order to maintain the distribution delivered into the right hand. So, in order to achieve the goal of the government, there are 6 principles (right kind, quantity, quality, place, time, and price) in

⁷³ Jefriando, M, Bertemu Presiden Ukraina, Jokowi Bicara Soal Perdagangan hingga Pertanian. Retrieved from <http://finance.detik.com/read/2016/08/05/193058/3269565/4/bertemu-presiden-ukraina-jokowi-bicara-soal-perdagangan-hingga-pertanian>, 2016

which all of them are the fundamental problem in the seed and fertilizer distribution, and that 6 principles do through:

1. Strengthening the role of private and society business in the production institution of seed and fertilizer, and registering the use of organic seed and fertilizer that are good for environment.
2. Increasing farmer knowledge in term of the use of certificate of quality seed and also fertilizer.
3. Strengthening supervision and also guidance of the use of seed and fertilizer subsidy.
4. Fertilizer and seed subsidy distribution based on the aspect of location.⁷⁴

In the Joko Widodo Administration agriculture subsidy is bigger than oil and energy subsidy. In Joko Widodo administration there is a shifting subsidy. Usually the subsidy quantity is bigger in the oil and energy that now becomes agriculture subsidy. So, in order to achieve the goal of “*Swasemba Pangan*” for the next 5 years, Joko Widodo tries to give subsidy as much as possible before the peace clause end. State APBN-P in 2015 reaches Idr 55,6 billion and about Idr 30 billion in seed and fertilizer and the rest is allocate for the agriculture sector development such as infrastructure, human resource development, and irrigation. Compared to the oil and electricity which is about IDR 17 Billion and IDR 22

⁷⁴ Kementrian pertanian, Rencana Strategis Kementerian Pertanian Tahun 2015 – 2019, Jakarta : Kementrian prtanain, 2015, Pg. 149

Billion, agriculture subsidy become the highest subsidy ever given⁷⁵. Big subsidy distribution in the early of the year is in order to accelerate the implementation of “*Swasembada Pangan*”. So, import surge can be stopped as fast as possible. However, there will be an issue of the elimination of fertilizer and seed subsidy and will change into price subsidy in which the control will be taken by BULOG. Issue of subsidy elimination actually has already been issued in the Susilo Bambang Yudhoyono administration but until his administration ended seed subsidy and fertilizer subsidy still exist. It is because it considers Indonesia’s agriculture sector which is worse. This issue can be indicated by the decreasing money allocation for Ministry of Agriculture, in APBN-P 2015 is about IDR. 31 billion. However in the APBN-P 2016 the subsidy was decreasing about IDR. 3.9 billion becoming IDR 27.58 billion. This change agreed by Agriculture Ministry and Commission IV DPR RI conveyed in the DPR work meeting, and this meeting also talked about the RAPBN of agriculture sector which was about IDR 25,99 billion.

This condition clearly shows that the intention of Indonesia government to be Semi-Periphery country and in order to achieve its condition, Indonesia needs to obey the international trade rules, i.e. peace clause. So that is why in the early of Joko Widodo administration, the amount of agriculture subsidy is huge because it will not be brought to the WTO trial. The subsidy that has been given by Indonesia government is in order to achieve “*Swasembada Pangan*” and to

⁷⁵ Fika Arianti, Pertama Kalinya, Subsidi Pertanian Lebih Besar dari Subsidi BBM, Retrieved from <http://bisnis.liputan6.com/read/2175316/pertama-kalinya-subsidi-pertanian-lebih-besar-dari-subsidi-bbm>, 2015,

substitute import agriculture commodities. However, slowly Joko Widodo will release its agriculture subsidy and change the system with other government help. So that is why the amount of subsidy is decreasing. What Indonesia government should do now is consistent with its agenda for the development of Indonesia, and not only strong in the beginning and weak in the end.