

CHAPTER I

INTRODUCTION

A. BACKGROUND

*“Indonesia is an open economy, and with the 250 million population, we are the largest economy in South-east Asia. And Indonesia intends to join the TPP,”*¹–

Joko Widodo, President of Indonesia

Joko Widodo’s statement above was addressed to the President of the United States, Barack Obama, in the white house.² Joko Widodo has shown his intentions to join the TPP due to the opportunities that Indonesia possibly achieves. Under Joko Widodo’s administration, Indonesia focuses on infrastructure development which aims to boost economic growth. Therefore, in order to make it happen, Joko Widodo cuts 42.000 regulations which hamper economic development.³ There are other 3.143 local regulations cut by his administration as well.⁴

¹ The Wall Street Journal. *Indonesia’s President Says His Country Intends to Join Trans Pasific Trade Pact.* (n.d). retrieved 2 October 2016, from

² The Guardian. *Indonesia will Join the Trans-Pasific Partership, Jokowi Tells Obama.* (n.d). retrieved 1 October 2016, from <https://www.theguardian.com/world/2015/oct/27/indonesia-will-join-trans-pacific-partnership-jokowi-tells-obama>.

³ Detik. *Ada 42.000 Aturan Birokrasi Pemerintahan, Jokowi: Hapuskan!* (n.d). retrieved 5 October 2016, from <https://finance.detik.com/industri/3125067/ada-42000-aturan-birokrasi-pemerintahan-jokowi-hapuskan>.

⁴ Kompas. *Jokowi: 3.143 Perda Bermasalah Telah Dibatalkan.* (n.d). retrieved 5 October 2016, from <http://nasional.kompas.com/read/2016/06/13/17215521/jokowi.3.143.perda.bermasalah.telah.dibatalkan>.

Those regulations are considered to hamper the process of licensing and investment and hamper the ease of doing business. By the end of August 2016, his administration had cut all of those regulations and the writer thinks this is as a step of Joko Widodo to adjust Indonesian regulations to TPP provisions.

Trans-Pacific Partnership (TPP) or Trans-Pacific Partnership Agreement (TPPA) is a free-trade agreement that aims to push countries liberalisation in Asia – Pasific. TPP was initiated by four countries – Singapore, Brunei, Chile and New Zealand – and negotiated with 12 countries (in total) in the following years – Australia, Brunei Darrussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, US (withdrawn) and Vietnam.⁵ The main aim of TPP is to increase the economy as well as export-import, reducing the obstacle for investors to invest and support the developing countries to grow.

Asia-Pasific has the largest population in the world and it is also one of the most strategic places for doing business because the market it has is promising. TPP agreement can not automatically be implemented in the countries which have agreed. There is still a ratification process that must be taken by each country to adjust (harmonization) its regulations with the TPP provisions.⁶ Adjusting a country's regulation with the TPP does take a long time because many considerations of the government have to be taken in order to implement it.

⁵ The Balance. *Trans-Pacific Partnership Summary, Pros and Cons*. (n.d) Retrieved 10 August 2017, from <https://www.thebalance.com/what-is-the-trans-pacific-partnership-3305581>.

⁶ The Guardian. *Trans-Pacific Partnership: four key issues to watch out for*.(n.d). retrieved 24 May 2016, from <https://www.theguardian.com/business/2015/nov/06/trans-pacific-partnership-four-key-issues-to-watch-out-for>.

Indonesian government needs to conduct a thorough assessment regarding the possibility to be a member of TPP due to the strict requirements that are required to be followed. With plenty of free trade agreements that have been conducted so far, Indonesia does not have much achievement. However, trade deals with the United States of America for example, Indonesia experiences surplus for US\$7-10 billion/year. Trade deals with European Union, Indonesia experiences surplus for US\$7-10 billion/year. But in fact, the agreement with China, Indonesia experienced a huge deficit for US\$14 billion/year. It is obvious that trading with developed countries will more likely give Indonesia advantage. According to Indonesia's trade ministry, Thomas Lembong, Chinese purchasing power is low and makes Indonesia difficult to compete and experienced deficit whereas American, European or any developed countries purchasing power is high, so from the price we can compete. Therefore, the intentions of Indonesia to join the Trans-Pacific Partnership is better to be seen from the context of seeking economical benefits or maintaining a good relation with TPP's member states, moreover, as of this writing, Indonesia has conducted many agreements with China more often than any other countries from different continents.

The President's plan to join the TPP is 'welcomed' by the businessman. The TPP main benefit to the members is market access. As comparison, why Indonesia would face economic growth by joining the TPP is because Indonesia has

experienced deficit in CAFTA and RCEP⁷ agreements with China. In the other word Indonesia could not compete with them.

Joko Widodo obviously believes that a country could not stand by itself. It needs economic systems to keep running in order to fulfill the needs of society. A country needs at least a cooperation or relation with another country in order to run and maintain its economy. Therefore, many countries in the world have declared an agreement commonly known as international economy cooperation, an association of two countries or more. One of the results of this sort of international agreement is the ease of export and import which can lead to economic growth.

International cooperations are indeed very crucial and needed for Indonesia, because by joining such an agreement, Indonesia would be able to eliminate the hampers of international trade, strengthen the relations with other countries, push economic growth, equitable distribution of income and national economy stability.

Some ASEAN parties, such as Malaysia, Brunei Darussalam, Vietnam, and Singapore are doing “safe play” by joining the TPP led by the USA (withdrawn) and the Regional Comprehensive Economic Partnership (RCEP) initiated by China. By pocketing the dual membership, the country can be assumed not only targeting the economic benefits, but also the advantages of protection and security in the

⁷ Regional Comprehensive Economic Partnership is a free trade agreement between the ten member states of the Association of Southeast Asian Nations (ASEAN) (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam) and the six states with which ASEAN has existing free trade agreements (Australia, China, India, Japan, South Korea and New Zealand).

name of "alliance". This step is quite reasonable for each country because they naturally will defend their national interests.

In fact, there are four SEA countries – Brunei, Malaysia, Singapore and Vietnam – which have already joined TPP. But if a new country want to join TPP (latecomer) it does not have a veto such as incumbant countries. Besides being only an expanded market for super-power countries, it is positioning the latecomers onto a very weak position within the TPP. However, with AEC, SEA countries are ready to face global competition.

Some scholars see unpredictable effects of the TPP on ASEAN. Current studies show that the agreement favors the four ASEAN members already engaged in the current TPP talks.⁸ But the ASEAN economies that have not yet joined TPP agreements, such as Thailand and Indonesia, will gain only modesty, or even experience some loss, as recent trade partner such as Japan switch some of their trade to TPP members such as Vietnam and Malaysia for better tariff and regulatory treatment.⁹

⁸ Asia Foundation. *TPP and RCEP: Boon or Bane for ASEAN?*.(n.d). retrieved 24 May 2016 from <http://asiafoundation.org/2015/09/09/tpp-and-rcep-boon-or-bane-for-asean/>.

⁹ Ibid.

It is also more likely that TPP will affect the global value chain of some particular industries and sectors. For example, according to Chiou's estimate (RIETI, 2014), Vietnam and Malaysia are likely to benefit from new electronics supply chains under TPP. But these profits may come at a cost to other ASEAN parties.¹⁰

Again, TPP, according to many economic experts, would be affecting the developing member states to experience losses. Moreover, they kept every document and talked very secretly with many people questioning it. This free trade deal will largely benefit corporate interests as well in the name of free trade. However, it is actually not concerning about the free trade or free market anymore, but it is more likely about the investor rights.

B. THE PURPOSES AND ADVANTAGES OF RESEARCH

The purposes and advantages of this research are:

1. This research could hopefully be one of the main sources of international relations studies or related studies.
2. This research is expected to be a guidebook for those who like to learn international issues.
3. This research is expected to be most favorable consideration or become an advice to particular and related groups for making a new policy.

¹⁰ The Guardian. *TPP or not TPP? What's the Trans-Pacific Partnership and should we support it?*.(n.d). retrieved 25 May 2016, from <https://www.theguardian.com/business/2015/oct/05/tpp-or-not-tpp-whats-the-trans-pacific-partnership-and-should-we-support-it>.

C. RESEARCH QUESTION

Based on the illustrated background above, the question that serves as the key analysis is:

What are the advantages for Indonesia by joining TPP?

D. THEORETICAL FRAMEWORK

The issue above could be explained by using several concepts and theories. Concept is an abstraction that represents as object, character of an object, or a certain phenomenon.¹¹ One of its function is to organize ideas, perception, and symbols in the form of classification and generalization.¹²

In order to answer the proposed research question, two concepts and one theory will be applied. As an addition, the concepts and theory that would be applied later have any relation or connection with economy and political units. These are the theories that are going to be used on this undergraduate thesis;

1. Economic Liberalism Theory

This theory helps the writer to explain the relations and economy benefits Indonesia gets from multilateral relations and free trade. The fundamental ideas of liberalism is giving freedom to individual. By maintaining such principle, they believe that freedom is crucial for every person.

¹¹ Mochtar Mas'ued. Hubungan Internasional: Disiplin dan Metodologi. Jakarta: LP3ES, 1990.p.93-94.

¹² Ibid, p. 95.

According to Adam Smith, Economic Liberalism is an economic system that is given to the society to regulate economic activities within the country. In this economic system, the ones who decides what, how and to whom goods or services produced us the society. In the liberal system, market's power determines economic activities, the market's power that is meant in this context is a power which formed by supply and demand. Therefore, if an individual or a group of people intend to dominate or control market's power, they must have the capitals, knowledge or advanced technology.

Economic Liberalism opposes government intervention on the grounds that the state often serves dominant business interests, distorting the market to their favor and thus leading to inefficient outcomes. For example, country A hold a cooperation with country B. The people have an 'arena' to do businesses and its people have access to do so as well. Or a country intends to join a regional agreement to seek economy benefits from export. However, the government shall not intervene in any of these activities. So, this idea says if one country does not join international free-trade agreement or does not cooperate with other countries, then that country will be left behind.

Liberalism has a very wide context, in economy, the government shall not intervene in economy activities nor in the market. The government tasks are merely to supervise, facilitate and ensure every individual has freedom to conduct their own businesses. The liberalist believes that in international order, non-state actor is an important role. Thus, cooperation and collaboration is the key to achieve national

interest. Indonesia itself joined many trade agreements, CAFTA, RCEP, OPEC and intends to join TPP.

The basic definition of liberalism is that the international system creates opportunities for cooperation and conflict. and its upto the states and other actors in the international system to either take advantage of those or not. For liberals, states are obviously important as well as the businesses, religious movements, social movements other sorts of organizations also matter. what liberals think about international politics is that we have lots of opportunities to cooperate, lots of opportunities to pursue goals that are beneficial to everyone.

Joko Widodo constantly promotes Indonesia in foreign affairs. His main goal is to boost the infrastructure development. Therefore, Indonesia needs foreign investors to invest in order to achieve it.

2. Free Trade

According to Ricardo (1817), free trade is a multi-national trading system which allows every country to have all access within a country without government intervention.

Smith (1776) sees a free market as an arena to accomodate all the things from every individual who believes freedom that is given to all the bussinessmen in accordance with what they wanted without any government invervention.

From those two definitions given by the economic experts about free trade, it can be concluded that free trade is a multi-national trading activity without any government interventions.

Another further definition of free trade is an economic practice whereby countries can import and export goods without fear of government intervention. Government intervention includes tariffs and import/export bans or limitations. Free trade offers several benefits to countries, especially those in the developing stage. "Developing countries" is a broad term. According to a widely used definition, a developing country is a nation with low levels of economic resources and/or low standard of living. Developing countries can often advance their economy through strategic free trade agreements.

The Trans-Pacific Partnership would create a free-trade zone among 11 nations around the Pacific, making it the world's largest. The countries within its scope account for most of the world's economic output.¹³

¹³ The Globe and Mail. *The ABCS of TPP*.(n.d). retrieved 1st December 2016, from <http://www.theglobeandmail.com/report-on-business/international-business/what-is-tpp-understanding-the-new-pacific-tradedeal/article26648948/>.

There are some issues on the table that are expected to be addressed within this trade agreement¹⁴:

1. Tariffs and Quotas
2. Environmental, Labor and Intellectual Property Standard
3. Data Flows
4. Services
5. State-Owned Enterprises

Regarding the issues above, the agreement has been discussed in secret, yet, has not been ratified. All the members have to adjust their national policy for making TPP becomes reality. Joko Widodo has stated his intentions to join the biggest regional agreement named TPP earlier in October 2015. Under his administration, Indonesia will focus on infrastructure development. Thus, he consistently promotes Indonesia and invites investors to invest.

¹⁴ The New York Times. *The Trans-Pacific Partnership Trade Deal Explained*.(n.d). retrieved 1st December 2016, from http://www.nytimes.com/2015/05/12/business/unpacking-the-trans-pacific-partnership-trade-deal.html?_r=0.

These are the possible benefits of free trade for developing countries¹⁵:

1. Increased resources
2. Improved quality of life
3. Better foreign relations
4. Production efficiency

Therefore, Joko Widodo believes that joining TPP would increase Indonesia's export which leads to economic growth. Moreover, the competition is expected to be increasing and preventing domestic monopolies from charging high prices. He also believes that Indonesia can get some advantages by joining the TPP.

E. HYPOTHESIS

Joko Widodo believes that Indonesia can get economic and political advantages by joining the TPP. Indonesia could expand its market onto 11 member states, thereby grow citizen income, promote local products and boost infrastructure development.

The second, by joining TPP, Indonesia could strengthen the relations with its parties.

¹⁵ Chron. *The Benefit of Free Trade For Developing Countries*. (n.d). retrieved 6th December 2016, from <http://smallbusiness.chron.com/benefits-trade-developing-countries-3834.html>.

F. METHODS OF RESEARCH

The writer gained the information by an extensive reviewing of relevant published materials, from books, articles, journals, reports, newsletters, official websites, and other source on a wide variety of topics in relation with the subject of this final paper.

G. SYSTEM OF WRITING

Chapter I: This chapter outlines the background of the research, research question, hypothesis, theoretical framework and sistematical writing.

Chapter II: This chapter discusses what the TPP offers to the member states.

Chapter III: This chapter discusses Indonesia's advantages of joining the TPP, trade development with trading partner and trade and investment opportunity.

Chapter IV: This chapter provides the conclusion