

### **CHAPTER III**

#### **INDONESIA AND TRADE SUPPORT PROGRAM -1**

Many developing countries face the difficulties of supply and trade related infrastructure obstacles which constrains their ability to extensively participate in international trade. Aid for Trade helps developing countries, and particularly least developed countries concerned in the term of trade. The WTO led Aid for trade initiative encourages developing country governments and donors to recognize the role that trade can play in development. In particular, the initiative seeks to mobilize resources to address the trade related constraints identified by developing and least-developed countries. Trade Support Program -1 (TSP -1) is one kind of the Aid for Trade programs. TSP -1 has been implemented between February 2006 and April 2008.

#### **A. Indonesia as A Developing Country**

Indonesia is the fourth biggest population over the world (248,645,008 in 2012).<sup>29</sup> It has quite poor infrastructure and low agricultural productivity that seek as the main root causes for the weak economic activity and high poverty concentration in rural areas. Low quality roads hinder local economic activities while high transport costs burden the competitiveness of rural producers. Low public investment in health, education and sanitary infrastructure are a constraint for the provision of these services to the rural poor. Stagnant productivity in

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<sup>29</sup> About the World Population and the Top Ten Countries with the Highest Population, available

agriculture depresses local incomes and often forces the unskilled peasants to move to urban areas.

Human capacity is an important thing that must be owned by every single country. By means, a country should have the professionals governments rely on for advice on WTO matters such as trade lawyers, economists, skilled negotiators. Institutional capacity above refers to the institutions businesses and governments which rely upon for trade, such as customs, national standards authorities, and the delegation representing the country at the WTO, because the trade ultimately suffers if these institutions are inadequate. The last one is the infrastructure which refers to the physical set up required for trade to be happened as well such as roads, ports and telecommunications. Shortly, the countries whom lack on this factor also will find it difficult to develop trade or even to compete in global world.

In addition, in December 2005 at the Hong Kong Ministerial Conference, the Aid for Trade initiative was launched which also a kind of implementation of the Building Trade Capacity Program. In February 2006, the WTO established a Task Force, with the aim operationalizing Aid for Trade. The Task Force recommended in July 2006 that Aid for Trade should focus on identifying the needs within recipient countries, responding to donors and acting as a bridge between donors and developing countries. It also recommended the establishment of a monitoring body in the WTO, which would undertake a periodic global

### *Economic Condition*

Economic condition of Indonesia has its dynamics. In mid-1997, the Asian financial Crisis began to affect became an economic and political crisis. Indonesia's response was to float the rupiah, raise key domestic interest rates, and tighten fiscal policy. In October 1997, Indonesia and the International Monetary Fund (IMF) reached agreement on an economic reform program aimed at macroeconomic stabilization and elimination of some of the country's most damaging economic policies, such as the National Car Program which involving family members of President Soeharto. The rupiah was weak, Soeharto then was forced to resign as the President in May 1998.

In August 1998, Indonesia and the IMF agreed on an Extended Fund Facility (EFF) under President B.J Habibie that included significant structural reform targets. President Abdurrahman Wahid took office in October 1999, and Indonesia and the IMF signed another EFF in January 2000. The new program also has a range of economic, structural reform and governance targets.

The effects of the financial and economic crisis were severe. In November 1997, rapid currency depreciation had seen public debt reach US\$60 billion, imposing severe strains on the government's budget.<sup>30</sup> In 1998, real GDP contracted by 13.1%. The economy reached its low point in mid-1999 and real

GDP growth for the year was 0.8%. Inflation reached 72% in 1998 but slowed to 2% in 1999.<sup>31</sup>

The rupiah, which had been in the Rp 2,600/USD1 range at the start of August 1997 fell to 11,000/USD1 by January 1998, with spot rates around 15,000 for brief periods during the first half of 1998.<sup>32</sup> It returned to 8,000/USD1 range at the end of 1998 and has generally traded in the Rp 8,000–10,000/USD1 range ever since, with fluctuations that are relatively predictable and gradual.<sup>33</sup>

#### **B. Purpose and Content of the Program**

The program aims to improve coordination and transparency in the formulation and implementation of trade policies for export development, and upgrade the nation's corresponding export quality infrastructure. This helps to support continued improvements in the quality of domestic output, add the value of exports, improve Indonesian export performance and increase the share and sophistication of products exported to markets globally.

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<sup>31</sup> *ibid*

The purpose of the project was to upgrade technical aspects affecting the bilateral EU – Indonesia import – export process through the following components:

- WTO Capacity Building (Ministry of Trade)
- Standards Harmonisation with EU Practices (Indonesian Standardisation Agency BSN)
- Research and Development Institutes (Ministry of Industry)
- Technical Fishing Laboratories (Ministry of Marine Affairs and Fisheries)

For implementation of the program, the Ministry of Trade was the responsible, and acted as main coordination of the involving the different components. The overall budget for the program was € 9,444,000. The European Commission contributed with 90% (€ 8,500,000) of that amount, and Indonesian partners with the remaining 10% (€ 944,000).<sup>34</sup>

The program consists of five core components which four of those were implemented in various ministries and national institutions, and the other one was focused on overall program management.

Component 0 was charged the Trade Research and Development Agency (TREDA) and Ministry of Trade (MoI) as the institution of all programs

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<sup>34</sup> *About Trade Support Program 1 (TSP 1)*, accessed on 8 March 2014). Available from

management. WTO Capacity Building was a point in Component 1 which aim to increase the levels and capacity of WTO itself related to the official governments and other related parties, where the Director-General of International Trade Cooperation was in charged.

Furthermore, Component 2 was talking about Standard Harmonization with EU Practices which aimed to align Standards Development with EU and international standard practices and to improve the Standardization of Information System, this component was implemented within the National Standardization Body.

Improving the access of Indonesian companies to be more able in technical data updates and recognizing testing certificates in selected industrial factors was the aim of the Research and Development Institutes that content on the Component 3. This was implemented under the Ministry of Industry which providing the industrial sector of Indonesia training, information, consultancy, product and certification bodies, applied research centers and testing laboratories.

Component 4 was talking about Fisheries Laboratories which aim to improve the food safety control system and better access of Indonesian companies to the European Union market. This component was implemented by the Ministry of Marine Affairs and Fisheries. The overall program was implemented in order

As what has been mentioned in the first chapter about the needs of “human capacity” to be owned by countries, especially the developing ones, which also the objective of the Building Trade Capacity Program, the TSP -1 that has been implemented gave a lot of benefits toward the development of Indonesia in term of its capacity to participate in global trade, proven with these following description:

**Table 3. 1 Trade Support Program -1 Objectives**

	<b>Objectives</b>
<b>The TSP -1 (in general)</b>	The program aimed to have a positive impact on the economic and social recovery of Indonesia, stimulating growth and contributing to the alleviation of poverty.
<b>Component 1</b>	To increase the knowledge and capacity of Indonesian government officials and other relevant parties and enable them to participate in multilateral trade negotiations and disseminate WTO information among local stakeholders.
<b>Component 2</b>	To provide technical assistance and thus improve the standardization information system and align the standards development with the EU and international standard practices.
<b>Component 3</b>	To improve the access of Indonesian companies to services enabling technical conformity data updates and to recognize testing certificates in selected industrial sectors via a select number of Research and Development Institutes.
<b>Component 4</b>	To ensure improved access to the EU market for Indonesian companies dealing in frozen fish and shrimp by improving the official food safety control system.

## Implementation

Below are following descriptions details about how the programs run, the duration of implementation and the activities involved:

**Table 3. 2Implementation of the Trade Support Program -1**

	Direct Beneficiaries	Duration of Implementation	Activities
Component 0	Ministry of Trade – Trade Research and Development Agency	February 2006 – April 2008	Devoted to the overall program management.
Component 1	Ministry of Trade – DG ITC	February 2006 – July 2007	Organized in 2 (two) sub-projects: 1. Training (workshops, in-house training and seminars, and research study tour). 2. Information, dissemination, and socialization (public seminars and in-depth research papers).
Component 2	National Standardization Body	February 2006 – April 2008	Implemented in 5 (five) sub projects: 1. Technical Assistance (TA) for Standardization Information Systems. 2. TA for Standards Development in line with EU and international practices. 3. TA for improving capacities in WTO-TBT Agreement (Notification). 4. TA for the implementation of a business management system. 5. TA for the introduction of a competency based training program.
Component 3	Ministry of Industry P&D Centers	February 2006 – April 2008	<ul style="list-style-type: none"> <li>• Training on EU laboratory management practices (Visit to EU) institutions and Strategic Management Planning).</li> <li>• Training on ISO 17025 and Quality Assurance</li> <li>• Training on conformity assessment for selected commodities.</li> <li>• Twinning program with the EU lab's.</li> <li>• Dissemination with seminars and workshops.</li> </ul>
Component 4	Ministry of Marine Affairs and Fisheries – Fisheries Labs	February 2006 – December 2007	<ul style="list-style-type: none"> <li>• Training on trainers (review and assessment of lab. Capacity and performance, funding for equipment, and training).</li> <li>• Orientation program for SME's (workshops and study tour).</li> <li>• Review of relevant regulatory/legal framework.</li> <li>• Dissemination to industry (seminars and workshops).</li> </ul>



### *Result of the Program*

Concerning in global trade, below are the following result of implementation of the WTO's TSP -1:<sup>35</sup>

#### **Component 1**

- Improved WTO knowledge and skills development,
- Wider dissemination of information to increase public awareness and to provide useful research on WTO issues concerned by Indonesia.
- Enhanced capacity of the ITC-MoT.

#### **Component 2**

- Website reflects the success of this component, the much improved, bilingual. Many business people rely on the website to search for standards which related with the information.
- Strengthened Standardization Information System.
- Better understanding on the TBT notification and inquiry point.

#### **Component 3**

- Training of young technicians led to the improvement of institutional capacities.
- Laid down a good foundation for future institutional collaboration between RI centers and EU labs.

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<sup>35</sup> About Trade Support Program -1, Aid for Trade, available in

- Increased capacities and improved operations, more understanding and recognition of problems, ability to become more market-oriented and thus serve the business community.
- Greater networking between EU labs and RI centers.

#### **Component 4**

- Strengthened labs on quality management
- Created new legal framework and inspection procedures.
- Strengthened the capability of the competent authorities and created quality manager position.
- Purchased and installed equipments for fisheries labs.
- Reduced trade barriers and improved trade flows to EU (short term impact: rapid alerts reduced from 70 in 2004 to 11 in 2010).
- Improved market access, approval for fisheries export to the EU to increase continually (in 2007: 109 fisheries exporters and in January 2011: 176 fisheries exporters).

Further explanation of the results is attached in appendixes.

#### ***Ministerial Declaration***

The Trade Support Program -1 has the same purpose with what has been upheld by the WTO since the first very beginning. Take a look at the Ministerial Declaration of the WTO which adopted on 14 November 2001, here

1. Declaration of the WTO which supported the

program, and or showed the needs of Building Trade Capacity Program and Aid for Trade:

*Relationship between Trade and Investment*

In the Article number 20, it has explained that the WTO recognized the case for a multilateral framework to secure transparent, stable and predictable conditions for long-term cross-border investment, particularly foreign direct investment, that will contribute to the expansion of trade, and the need for enhanced technical assistance and capacity-building in this area as referred to in paragraph 21, the WTO agree that negotiations will take place after the Fifth Session of the Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that session on modalities of negotiations.

Furthermore in the next Article, which is the content of Article number 21, it explained that the WTO recognized the needs of developing and least-developed countries for enhanced support for technical assistance and capacity building in this area, including policy analysis and development so that they may better evaluate the implications of closer multilateral cooperation for their development policies and objectives, and human and institutional development. To this end, the WTO shall work in cooperation with other relevant intergovernmental organizations, including UNCTAD, and through appropriate regional and bilateral

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Explained more in the Article number 22, in the period until the Fifth Session, further work in the Working Group on the Relationship Between Trade and Investment will focus on the clarification of: scope and definition; transparency; non-discrimination; modalities for pre-establishment commitments based on a GATS-type, positive list approach; development provisions; exceptions and balance-of-payments safeguards; consultation and the settlement of disputes between members. Any framework should reflect in a balanced manner the interests of home and host countries, and take due account of the development policies and objectives of host governments as well as their right to regulate in the public interest. The special development, trade and financial needs of developing and least-developed countries should be taken into account as an integral part of any framework, which should enable members to undertake obligations and commitments commensurate with their individual needs and circumstances. Due regard should be paid to other relevant WTO provisions. Account should be taken, as appropriate, of existing bilateral and regional arrangements on investment.

#### *Interaction between Trade and Competition Policy*

About the interaction between trade and competition policy, in Article number 24 has been described that the WTO recognized the needs of developing and least-developed countries for enhanced support for technical assistance and capacity building in this area, including policy analysis and development so that they may better evaluate the implications of closer multilateral cooperation for

development. To this end, the WTO shall work in cooperation with other relevant intergovernmental organizations, including UNCTAD, and through appropriate regional and bilateral channels, to provide strengthened and adequately resourced assistance to respond to these needs.

#### *Trade and Transfer of Technology*

Trade and transfer of technology also has been captured in the Article number 37 that the WTO agreed to an examination, in a Working Group under the auspices of the General Council, of the relationship between trade and transfer of technology, and of any possible recommendations on steps that might be taken within the mandate of the WTO to increase flows of technology to developing countries. The General Council shall report to the Fifth Session of the Ministerial Conference on progress in the examination.

#### *Technical Cooperation and Capacity Building*

The Trade Support Program -1 connected directly with technical cooperation and capacity building, as well as mentioned in the Article 38 that the WTO confirmed that technical cooperation and capacity building are core elements of the development dimension of the multilateral trading system, and it welcome and endorse the New Strategy for WTO Technical Cooperation for Capacity Building, Growth and Integration. The WTO instructed the Secretariat, in coordination with other relevant agencies, to support domestic efforts for mainstreaming trade into national plans for economic development and strategies

to assist developing and least-developed countries and low-income countries in transition to adjust to WTO rules and disciplines, implement obligations and exercise the rights of membership, including drawing on the benefits of an open, rules-based multilateral trading system. Priority shall also be accorded to small, vulnerable, and transition economies, as well as to members and observers without representation in Geneva. The WTO reaffirmed its support for the valuable work of the International Trade Centre, which should be enhanced.

Afterwards in Article number 39, the WTO underscore the urgent necessity for the effective coordinated delivery of technical assistance with bilateral donors, in the OECD Development Assistance Committee and relevant international and regional intergovernmental institutions, within a coherent policy framework and timetable. In the coordinated delivery of technical assistance, the WTO instruct the Director-General to consult with the relevant agencies, bilateral donors and beneficiaries, to identify ways of enhancing and rationalizing the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries and the Joint Integrated Technical Assistance Program (JITAP).

Continue to Article number 40 which still related to technical cooperation and capacity building, the WTO agreed that there is a need for technical assistance to benefit from secure and predictable funding. It instructed the Committee on Budget, Finance and Administration to develop a plan for adoption by the General

assistance at an overall level no lower than that of the current year and commensurate with the activities outlined above.

The WTO has established firm commitments on technical cooperation and capacity building in various paragraphs in this Ministerial Declaration. It reaffirmed the important role of sustainably financed technical assistance and capacity-building programs. The WTO instruct the Director-General to report to the Fifth Session of the Ministerial Conference, with an interim report to the General Council in December 2002 on the implementation and adequacy of these commitments in the identified paragraphs as well as captured in Article number