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Pantri Muthriana Erza Killian

Department of International Relations, Universitas Brawijaya, erza.killian@yahoo.com

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INDONESIA'S TRADE DIPLOMACY THROUGH FTA: ANALYSIS ON ACTORS, PROCESSES, AND GOALS OF DIPLOMACY

Pantri Muthriana Erza Killian

Department of International Relations
Universitas Brawijaya

Email: erza.killian@yahoo.com

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Abstrak

Tulisan ini bertujuan untuk menganalisis berbagai perjanjian perdagangan bebas (FTA) yang telah diikuti Indonesia selama 15 tahun terakhir dengan melihat tiga elemen utama diplomasi dagang, yakni: aktor, proses, dan tujuan diplomasi. Berdasarkan kerangka ini, ditemukan bahwa kepentingan politik luar negeri cenderung mendominasi dalam diplomasi dagang Indonesia dibandingkan kepentingan ekonomi. Hal ini bisa dilihat dari tiga hal, yakni pertama, aktor diplomasi FTA Indonesia cenderung didominasi oleh aktor negara, khususnya aktor politik luar negeri dengan partisipasi yang sangat terbatas dari pelaku perdagangan dan aktor non-negara. Banyaknya FTA Indonesia yang dilakukan melalui ASEAN juga cenderung memunculkan dominasi pemain politik luar negeri, mengingat pembagian wewenang di ASEAN yang menempatkan pelaku politik luar negeri pada hierarki yang lebih tinggi dibanding aktor perdagangan. Kedua, proses diplomasi FTA Indonesia cenderung tidak efisien dan efektif karena melibatkan dualisme diplomasi melalui ASEAN dan Indonesia, yang berkontribusi pada tumpang-tindihnya FTA dan menurunnya angka utilisasi dari FTA. Ketiga, banyaknya FTA Indonesia yang berbasis ASEAN menyebabkan tujuan FTA bergeser menjadi tujuan politik luar negeri dibandingkan ekonomi/dagang karena karakteristik ASEAN yang lebih fokus ke isu politik dan keamanan. Berdasarkan temuan ini, perlu ada upaya reposisi dalam diplomasi FTA Indonesia agar dapat menyeimbangkan tujuan perdagangan dan tujuan politik luar negeri di dalamnya.

Kata kunci:

FTA, diplomasi, dagang, Indonesia

Abstract

The purpose of this article is to examine the various FTAs that Indonesia has been involved in within the last 15 years by looking at the three core elements of trade diplomacy: actors, processes, and goals of FTAs. Based on these elements, this research finds that Indonesia's FTA diplomacy tends to be dominated by foreign policy interests compared to economic ones, which can be observed through several elements. First, Indonesia's FTA diplomacy is dominated by state actors and foreign policy players with little involvement from economic players and non-state actors. The numerous FTAs signed through ASEAN also reinforced this domination since ASEAN's distribution of authority placed foreign policy players at a higher hierarchy than trade actors. Second, Indonesia's FTA diplomacy tends to be inefficient and ineffective due to dualism in its diplomatic process, which involves collective negotiations through ASEAN and at the same time, individually through the national government. This resulted in a multiplicity of agreements, leading to the low number of FTA utilisation by private sectors. Third, Indonesia's continued use of ASEAN as a medium for FTA negotiations leads to the strengthening of foreign policy goals relative to economic ones, due to ASEAN's internal characteristics which focuses more on political-security relations, rather than economic ones. Based on these observations, Indonesia needs to reposition its FTA diplomacy to find a better balance between its foreign policy and trade goals.

Keywords:

FTA, trade, diplomacy, Indonesia

INTRODUCTION

Until the mid-2020, Indonesia has been involved in several free trade agreements (FTAs) with multiple partners, ranging from countries, groups of countries, and regional organisations. According to a data from Asia Regional Integration Centre (ARIC) (2020a), Indonesia is currently involved in 11 FTAs which are already in effect (*entry into force*),¹ 4 FTAs which have been signed but not yet in effect, as well as undertaking negotiations for 7 FTAs and engaging in 18 FTAs which are at the preparatory stage.² In total, Indonesia is currently involved in approximately 40 FTAs, positioning Indonesia as one of the most actively involved Asian states in FTAs. In comparison, Malaysia is involved in 34 FTAs, Thailand in 38 FTAs, Vietnam and the Philippines in 26 FTAs, and Japan in 32 FTAs (Asia Regional Integration Center, 2020a). Thus, based on a purely quantitative account, Indonesia's FTA involvement only fell behind China (47 FTAs), Singapore (43 FTAs), India (42 FTAs), and South Korea (41 FTAs), which emphasised Indonesia's active participation in FTAs. Within these FTAs, Indonesia's involvement can be classified into two categories: *individual involvement*, or FTAs directly initiated by Indonesia itself, and *collective involvement*, in which Indonesia binds its FTAs collectively through the Association of Southeast Asian Nations (ASEAN). Of the 40 Indonesian FTAs, 12 are finalised under ASEAN's purview, where seven of these have been signed and entered into force (Asia Regional Integration Center, 2020a).

In general, Indonesia's active posture can be regarded as 'normal', considering Indonesia's position as one of the world's most populated and largest consumer markets, in addition to its export-oriented economy. Its enormous population allows Indonesia to become an attractive partner for prospective FTA partners and often receives FTA requests from external partners. The Indonesian government, as stated by the Ministry of Trade (MoT), has also realised the importance of FTAs and other regional/multilateral cooperation, which led to the incorporation of trade diplomacy as one of the working agendas of the 2014-2019 Strategic Plan (Kementerian Perdagangan Republik Indonesia, 2015). In essence, Indonesia's global trade activities are in line with the global trend, where nowadays, countries advance their foreign policies based on economic activities and conduct relations based on economic power (Gelb, 2010).

However, the potential benefits of these FTAs should be scrutinised, since the high number of Indonesian FTAs does not necessarily correlate with its economic or commercial benefit. For example, a study by Sitepu and Nurhidayat (2015) reported that the preference utilisation rates (PUR) of Indonesian FTAs are rather low compared to

other states, estimated to be somewhere between 6% to 35%. PUR represents the percentage of actors from the business/private sector who have acquired the rights to use and *have* utilised these FTAs (The Federation of German Industries, 2018), meaning that these low rates indicate a highly underutilised trade instrument. Unfortunately, this situation is exacerbated by the lack of comprehensive studies regarding Indonesia's FTAs and its trade diplomatic strategy. The majority of studies on Indonesian FTAs focus more on the impact of a particular FTA for the economy or on a specific sector of the economy, rather than on the overall benefits of these FTAs (see for example Setiawan, 2012, 2015; Nasrudin et al., 2015; Ningsih et al., 2018). Moreover, studies on the political-economic dimension of Indonesian FTAs are very limited and tend to be outdated (see, for example, Soesastro & Basri, 2005; Chandra, 2005; Chandra, 2008). Although previous research on Indonesian trade diplomacy at the multilateral, plurilateral, and unilateral levels exists (see for example Pradana, 2013; Falahi, 2015; Ismail, 2019), studies on Indonesia's diplomacy through its FTAs remain scarce.

Taking this background into account, this article has two main objectives. *First*, to analyse Indonesia's FTA strategy and *second*, contribute to literature on the political economic dimension of Indonesia's FTAs and offer a conceptual framework that explains trade diplomacy conducted by individual countries. This conceptual framework comprises three main elements, namely actors, processes, and goals of trade diplomacy, which are further categorised into several sub-elements. Based on the conceptual framework and the collected data, this article argues that Indonesia's FTA diplomacy tends to be dominated by political factors and the need to fulfil foreign policy interests rather than trade or commercial interests. Three main reasons support this argument. *First*, Indonesia's FTA diplomacy is dominated by state actors, particularly those closely related to foreign policy-making and limits the participation of trade and non-state actors. *Second*, decisionmaking and negotiation processes in Indonesian FTAs tends to be inefficient and ineffective, as demonstrated by the overlaps between multiple FTAs, thus lowering the PURs of these FTAs and further diminishing its economic usefulness. *Third*, foreign policy interests tend to dominate Indonesia's FTAs, particularly those initiated through ASEAN, since, intrinsically, ASEAN gravitates more towards building external political-security relations rather than economic ones. These three elements illustrate that Indonesia's FTA diplomacy tends to be biased towards foreign policy dimension relative to economic or commercial dimensions.

The findings in this research are supported by two types of data: documents (newspapers, press releases, annual reports, databases, etc.) and interviews with key informants from relevant Indonesian agencies and representatives from negotiating partners and several ASEAN member-states. Secondary data on FTAs were retrieved from ARIC database, managed by the Asian Development Bank (ADB). This database was chosen since ARIC provides the most detailed categories on the development phases of FTA, compared to other databases, allowing for a more in-depth analysis. For instance, the World Trade Organisation (WTO) database only categorised the development phases of FTAs into two categories, the “in force” and “early announcement” phases. While such classification may be useful for legal-institutional analysis, it does not provide many insights into the political or non-legal aspects of FTAs. For example, FTA negotiation between ASEAN and the European Union (EU) in 2007-2009 would not be included in WTO’s database as it did not result in any legal document, although Indonesia was involved in the process for two years. Therefore, such a database is not in line with this article's purpose, which attempts to provide a comprehensive insight into Indonesia’s FTA strategy.

In assessing the data, this article employs a thematic analysis through data identification, data collation, and data reduction within the conceptual framework's perimeter. To elaborate on the research's argument and findings, this article is divided into four main sections. The first section discusses the literature on trade diplomacy and introduces the conceptual framework. The second section explains the history and development of Indonesia’s trade diplomacy since 2000, while the third section analyses trade diplomacy using the conceptual framework. The last section concludes discussions and provides recommendations for Indonesia to reposition its FTA diplomacy.

ANALYTICAL FRAMEWORK

In practice, trade is one of the oldest forms of diplomacy, since classic diplomatic practices tend to revolve around “war and trade” (Okano-Heijmans, 2012). International merchants had always been diplomats (Tussie, 2013) and several early ‘trade corporations’, such as the British East India Company and Dutch East India Company, were essentially trade diplomats as they were given mandates by their respective countries to be involved in trade negotiations (Lee & Hudson, 2004). However, the literature on trade diplomacy seems to develop slower than other forms of diplomatic activities such as security, territorial disputes, or military issues. Although the terminology “trade

diplomacy” has been used since 1914 (Brown, 1914), it was not until the 1950s did the term gained recognition, mostly due to the creation of a global trade regime following the aftermath of World War II. Lee and Hudson (2004) identified two main reasons regarding trade diplomacy’s minimal role within the literature on classic diplomacy. First, there were dichotomies in International Relations (IR) which created divides between ‘international-domestic’, ‘political-economy’, and ‘public-private’, where the latter terms (i.e. domestic, economy, and private) were perceived to be of lower status compared to the former and unfortunately, trade diplomacy and economic activities tended to be associated with the latter than the former. Second, IR studies tend to be state-centric, and diplomacy was perceived as an effort to accommodate the anarchic nature of the international structure and to create peace, while economic activities, including trade, were perceived as less relevant to fulfil such functions. Therefore, trade diplomacy was, historically, neglected within the studies of diplomacy, although these tendencies seem to have evolved.

From the 1950s onward, more studies on modern-day trade diplomacy emerged, particularly after the establishment of the General Agreement on Tariff and Trade (GATT) in 1945 and the World Trade Organisation (WTO) in 1993. This literature mostly focused on the legal aspect and economic benefits of trade diplomacy (see for example Hudec, 1975; Lipton & Bell, 1970), and tend to neglect the political economy or foreign policy dimension of trade diplomacy. Trade diplomatic activities from this era were perceived as collective efforts to manage global trade regimes and, thus, do not focus much on individual states' specific strategy. By the end of 1990s and early 2000s, a new group of literature on economic diplomacy emerged, in which trade diplomacy was positioned as one of its most prominent strands. The main proponents of this study are Coolsaet (2001, 2004), van Bergeijk and Moons (2011, 2018), Okano-Heijmans (2011, 2016), Woolcock (2012c), and Rana (2007, 2012), who mainly focused on states’ activities and political-economic strategies, as well as their impacts at the global level. Within this literature, economic diplomacy can be understood as a foreign policy strategy that rests upon the assumption that economic/commercial and political interests reinforce each other and must be seen in tandem (Okano-Heijmans, 2011).

Throughout its development, scholars of economic diplomacy tend to debate three core issues: *who* does it, *which activities* are included, and *what goals* are being pursued. With regards to the actor, although most scholars agree that state actors mainly conduct diplomacy, several scholars argue that economic diplomacy can also be done by non-state

actors, noting that many recent activities within the global economy involve representatives from the business sector and civil society groups (van Bergeijk & Moons, 2009, 2018). For instance, trade and economic negotiations would generally involve the private sector and most—if not all—governments nowadays rely on business associations to gather information in their policy-making process. On the other hand, other scholars believe that non-state actors' diplomatic activities are best described as 'business diplomacy' or 'corporate diplomacy' since economic diplomacy is mostly a state-led activity (Saner & Yiu, 2003). The second issue revolves around what activities are regarded as economic diplomacy. The modern study of economic diplomacy comprises several strands or clusters of activities, the most notable ones being trade diplomacy, commercial diplomacy, and financial diplomacy. However, other scholars also suggested to include other strands/clusters, such as consular activities, economic sanctions, foreign economic incentives/aid, and even environmental issues (Lee & Hocking, 2010; Rana & Chatterjee, 2011; Okano-Heijmans, 2011; Woolcock, 2012a). Out of these various strands, three strands generally stood out the most, namely trade diplomacy, commercial diplomacy, and foreign aid, since most countries nowadays build their economic diplomacy strategy on these three pillars (Okano-Heijmans, 2016).

The third issue pertains to the goal of economic diplomacy, in which scholars are divided on whether economic diplomacy should only pursue economic goals (Rana & Chatterjee, 2011), foreign policy goals (Berridge & James, 2003), or both (Okano-Heijmans, 2016; van Bergeijk & Moons, 2018). In fairness, these scholars are generally divided along their methodological and theoretical approaches which affected their viewpoints. For example, scholars who lean towards the primacy of foreign policy are mostly associated with studies on economic *statecraft*, focusing on economic sanctions to influence other states' behaviours. Economic statecraft can be defined as the use of economic means to achieve interests in the international political arena, and while seemingly alike to economic diplomacy, it is not identical to economic diplomacy since economic diplomacy encompasses a broader array of issues (Baldwin, 1985). Meanwhile, proponents of the primacy of economic purposes are associated with *foreign economic policy* (FEP) studies, which look into states' activities on production and distribution of goods and services, as well as other cross-border economic activities which may influence other states (Okamoto, 1997). In this sense, economic diplomacy is more comprehensive and is more appropriately interpreted as a state's strategy to achieve both political *and* economic purposes. In other words, economic diplomacy is the intersection of foreign

policy and economic policy. Thus, trade diplomacy can be understood as the nexus between trade policy and foreign policy.

As a subset of economic diplomacy, analyses on trade diplomacy often employs the same framework with economic diplomacy. However, due to its multiple strands, different scholars often take different approaches in studying economic diplomacy. For example, scholars focusing on commercial diplomacy, which scrutinises the effectiveness of foreign representatives on export-import performances, tend to employ quantitative approach (Yakop & van Bergeijk, 2011; Moons & van Bergeijk, 2017), while studies on trade diplomacy mainly use qualitative approach (Woolcock, 2012a; Okano-Heijmans, 2014). The analytical and conceptual frameworks also vary, ranging from studies utilising the management and business approach, (Naray, 2011; Zuidema & Ruel, 2012), the negotiation approach (Bayne, 2012; Woolcock, 2012b), to an eclectic approach (Okano-Heijmans, 2011). Therefore, one main challenge for any research on trade diplomacy is selecting and operationalising the research framework appropriately.

In line with this assertion, this article proposes three core elements to explain Indonesia's FTA diplomacy: actors, processes, and goals, which form the basic principles of any economic diplomatic practices. *Actor* answers the *who* question in trade diplomacy, while *processes* explain *how* such diplomatic practice is conducted, and, lastly, *goals* explain the *outcome* being pursued through trade diplomacy. In looking at the actor component, this research delves into state and non-state entities' role in Indonesian trade diplomacy. Operationalisation of the process element is derived from Bayne and Woolcock's (2012) take on economic diplomacy, which encompasses two main activities: decisionmaking and trade negotiation processes. As the third element, the goal component is operationalised by looking at the two main goals of economic diplomacy, which are economic/commercial and foreign policy goals. Figure 1 portrays the conceptual framework of this research.

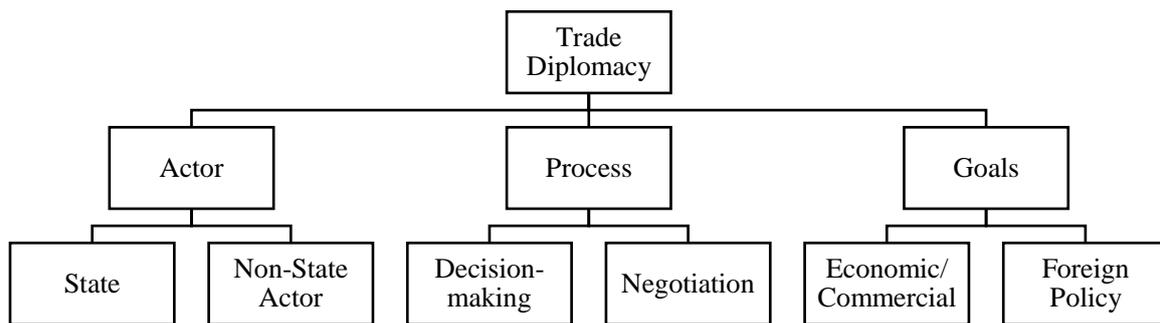


Figure 1. Trade Diplomacy as a Conceptual Framework

Source: author's own conceptualisation

This conceptual framework will be applied to understand Indonesia's trade diplomatic practice by elaborating its multiple FTAs.

DISCUSSION

The History and Development of Indonesia's FTA Diplomacy

The first FTA which Indonesia engages in was the ASEAN Free Trade Agreement (AFTA), signed in 1992. Following this, Indonesia's engagement was minimal until it decided to sign the ASEAN-China Free Trade Area (ACFTA) in 2004 (Asia Regional Integration Center, 2020a). China's political motives mostly fuelled ACFTA since China seeks to minimise ASEAN member states' fear of China's economic ascendance in Southeast Asia (Mursitama & Haura, 2011). Compared to Indonesia's *multilateral* trade diplomacy, which started in 1950 after Indonesia's entry to WTO (World Trade Organization, 2020), Indonesia's FTA diplomacy is relatively young. However, Indonesia's FTA diplomacy tends to be more dynamic, as evidenced by the growing number of Indonesia's FTAs. One determining factor for this is the stagnation in multilateral trade negotiations, where the Doha Round has been around for almost twenty years with limited progress. Many countries, including Indonesia, then, shifted their trade diplomacy towards bilateral/regional engagements, due to the fear of market loss and the threat of economic rivalry. The WTO reported that there had been a significant increase in the number of FTAs signed since 1995, where, currently, there are more than 600 FTAs in place (World Trade Organization, 2019).

Following ACFTA in 2004, Indonesia proceeded to sign FTAs with 13 other partners, the last one being with Chile and Mozambique in August 2019 (Asia Regional Integration Center, 2020a). In general, there are two kinds of FTAs which Indonesia signs,

the *individual* FTAs which Indonesia signs on its own and the *collective* ones which Indonesia signs under the ASEAN framework. Of the ten FTAs already signed and entered into force, six were signed under the ASEAN framework, while Indonesia signed the rest on its own (Asia Regional Integration Center, 2020a). Meanwhile, out of the eight FTAs currently being negotiated, one is collectively negotiated via ASEAN, and the rest is done independently by Indonesia. Table 1 provides a list of Indonesia's concluded FTAs from 2004 to mid-2020.

Table 1. Indonesia's Involvements in FTA Negotiations which has been Concluded (2004-2020)

No.	Name of the FTA	Signed in (Year)	Partner(s)	The FTA's Status
1.	<i>ASEAN-China Free Trade Agreement</i>	2004	ASEAN, China	<i>Signed, and in effect</i>
2.	<i>ASEAN-Korea Comprehensive Economic Cooperation Agreement</i>	2007	ASEAN, South Korea	<i>Signed, and in effect</i>
3.	<i>Indonesia-Japan Economic Partnership Agreement</i>	2008	Japan	<i>Signed, and in effect</i>
4.	<i>ASEAN-Japan Comprehensive Economic Partnership</i>	2008	ASEAN, Japan	<i>Signed, and in effect</i>
5.	<i>ASEAN-Australia-New Zealand Free Trade Area</i>	2010	ASEAN, Australia, New Zealand	<i>Signed, and in effect</i>
6.	<i>ASEAN-India Comprehensive Economic Cooperation Agreement</i>	2010	ASEAN, India	<i>Signed, and in effect</i>
7.	<i>Preferential Tariff Arrangements – Group of 8 Developing Countries</i>	2011	Bangladesh, Egypt, Iran, Malaysia, Nigeria, Pakistan, Turkey	<i>Signed, and in effect</i>
8.	<i>Indonesia-Pakistan Free Trade Agreement</i>	2013	Pakistan	<i>Signed, and in effect</i>
9.	<i>Trade Preferential System of the Organization of the Islamic Conference</i>	2014	Members of the Organisation of Islamic Cooperation (OIC) ³	<i>Signed, but not yet in effect</i>
10.	<i>Indonesia-EFTA Free Trade Agreement</i>	2018	Liechtenstein, Iceland, Norway, Switzerland	<i>Signed, but not yet in effect</i>
11.	<i>Indonesia-Australia Comprehensive Economic Partnership Agreement</i>	2019	Australia	<i>Signed, but not yet in effect</i>
12.	<i>ASEAN-Hongkong Free Trade Agreement</i>	2019	Hong Kong	<i>Signed, and in effect</i>
13.	<i>Indonesia-Chile Free Trade Agreement</i>	2019	Chile	<i>Signed, and in effect</i>
14.	<i>Indonesia-Mozambique Free Trade Agreement</i>	2019	Mozambique	<i>Signed, but not yet in effect</i>

Source: Asia Regional Integration Center (2020a)

Aside from the FTAs already finalised, Indonesia is currently undertaking negotiations with multiple partners, as listed in Table 2.

Table 2. Indonesia's Involvements in FTAs Which are Under Negotiation/Waiting to be Signed

No.	Name of the FTA	Started in (Year)	Partner(s)
1.	<i>Indonesia-India Comprehensive Economic Cooperation Arrangement</i>	2011	India
2.	<i>Indonesia-Republic of Korea Free Trade Agreement⁴</i>	2012	South Korea
3.	<i>Regional Comprehensive Economic Partnership⁵</i>	2013	ASEAN, China, Japan, South Korea, Australia, New Zealand
4.	<i>Indonesia-EU Comprehensive Economic Partnership Agreement</i>	2016	27 member states of the EU
5.	<i>Indonesia-Turkey Free Trade Agreement</i>	2017	Turkey
6.	<i>Indonesia-Tunisia Preferential Trade Agreement</i>	2018	Tunisia
7.	<i>Indonesia-Morocco Preferential Trade Agreement</i>	2019	Morocco

Source: Asia Regional Integration Center (2020a)

It is also important to note that trade negotiations usually occur in multiple phases, and even after being signed, many FTAs will still require further negotiations to discuss additional details or revitalise previously expired FTAs.

Analysing the number of Indonesia's completed FTAs until mid-2020, Indonesia is most active through the ASEAN framework, which accounts for six out of ten active agreements. Moreover, several FTAs also overlap, where these FTAs involve similar partners but is made through both individual and collective channels (e.g., FTAs with Japan, Australia, India, and South Korea). In fairness, overlaps in FTA negotiations are done not only by Indonesia but also by other ASEAN member states. Currently, all ASEAN member states, except Cambodia, Laos, and Myanmar, have at least one additional (individual) FTA in place with similar ASEAN dialogue partners in addition to the ASEAN-led FTA (Asia Regional Integration Center, 2020a).

In terms of the process, there are several differences between the individual and ASEAN-led FTAs. For individual negotiations, Indonesia's negotiation team is led by an official from the Indonesian MoT, while for ASEAN-based negotiations, the negotiating team is led by a senior trade official from one ASEAN member state. This position is usually assumed by a representative from the 'country coordinator'⁶, agreed collectively during the initial stage of the negotiation process (Author's Personal Interview, 2018). This lead negotiator and his/her staff are responsible for managing the negotiation process and consolidating the positions of ASEAN member states.

In conducting its external economic relations, the ‘ASEAN-minus-X’ mechanism may be applied, where ‘X’ refers to the number of ASEAN member states who may wish to defer its commitment to the agreement. This mechanism is encapsulated in the Article 21 paragraph 2 of the ASEAN Charter, which states that “In the implementation of economic commitments, a formula for flexible participation, including the ASEAN Minus X formula, may be applied where there is a consensus to do so” (Association of Southeast Asian Nations, 2007). This rule was applied in 2006 when Thailand refused to join the ASEAN-Korea FTA due to South Korea’s rejection of rice to be included in the exclusion list (Associated Press, 2007). Thailand joined three years later after undertaking additional negotiations with South Korea (Bangkok Post, 2008). During the RCEP negotiations, the Philippines also suggested utilising the ASEAN-minus-X principle to fast-track the negotiation process (Pillas, 2017), although the suggestion was not followed through. Obviously, this mechanism does not exist in Indonesia’s individual trade negotiations.

Another notable difference is in the choices of FTA partners and the decisionmaking procedures between the individual and ASEAN-led FTAs. For individual negotiations, Indonesia can independently respond or initiate offers to engage with external partners, while ASEAN-led FTAs will require unanimous agreement from all member states. ASEAN, however, tends to be highly selective in choosing its FTA partners since until now, ASEAN’s FTA partners only consist of countries which are officially regarded as ASEAN’s dialogue partners,⁷ namely Australia, Canada, China, EU, India, Japan, South Korea, New Zealand, Russia, and the United States.⁸ Other non-dialogue partners who are interested in conducting FTA negotiations with ASEAN would be suggested to ‘first build closer relations with ASEAN’ before commencing such negotiations (Author’s Personal Interview, 2018). However, the possibility of building a closer relationship and becoming ASEAN’s dialogue-partner (and eventually, ASEAN’s FTA partners) is rather slim considering that since 1999, ASEAN had imposed a moratorium on adding dialogue partners (Thuzar, 2017; Haacke & Breen, 2018). This phenomenon indicates that ASEAN is relatively political in choosing its FTA partners, which may differ from Indonesia’s economic calculations when undertaking individual FTA negotiations.

Indonesian FTA Diplomacy: Analysis of Actors, Processes, and Goals

Referring to the conceptual framework presented above, the analysis on Indonesian FTA diplomacy practices will focus on three main components: who are involved (*the actors*), how is it conducted (*the processes*), and for what *goals*. In general, trade diplomacy involves two types of actors, the state actors and the non-state actors. However, state actors cannot be deemed as unitary, since they typically consist of multiple government institutions, focusing on different policy areas and thus, will cater to diverse interests. The same goes for non-state actors, who are often not monolithic or coherent and are usually divided into two main groups, the private sectors and civil society groups.

Actors in Indonesia's FTA Diplomacy

For Indonesia, the MoT is legally mandated as the main coordinator of trade diplomacy, as they are responsible for coordinating and managing the decisionmaking process and negotiations. Article 86 of the Law No. 7/2014 on Trade states that *first*, in conducting international trade agreements, the government may form a negotiating team responsible for preparing and undertaking trade negotiations. *Second*, details regarding the formation of the negotiation team will be stipulated further in the Presidential Decree No. 82/2017 on the Negotiating Team for International Trade Agreements (*Perundingan Perdagangan Internasional*, hereinafter referred to as PPI). Article 5 of the decree further specified that the Minister of Trade acts as the head of the PPI team while 21 other ministers, head of national bodies and relevant institutions act as members. Furthermore, Article 6 Section 2 and 3 of the Decree declares that *first*, the head of the PPI team acts as the coordinator and person-in-charge for all trade negotiations, and *second*, a directorate-general will assist the PPI Team within the MoT in charge of international trade negotiations.

According to these regulations, trade diplomacy legally falls under the purview of MoT. In practice, however, several other factors are also at play. *First*, to sign and finalise trade agreements, MoT requires a letter of authority from the Ministry of Foreign Affairs (MoFA), as regulated in Article 14 of the Law No. 37/1999 on Foreign Affairs. *Second*, despite MoT's role as the coordinator of trade diplomacy, MoFA may still influence the choice of FTA partners through political deals, especially for FTAs negotiated under the ASEAN framework. This is due to the decisionmaking structure within ASEAN, which is unidirectional, and the MoT is positioned at a lower level compared to MoFA. Within the ASEAN structure, MoFA is a member of the ASEAN Coordinating Council (ACC),

while MoT is positioned under the ASEAN Economic Community Council (AECC). Figure 2 describes how such structure plays out in ASEAN.

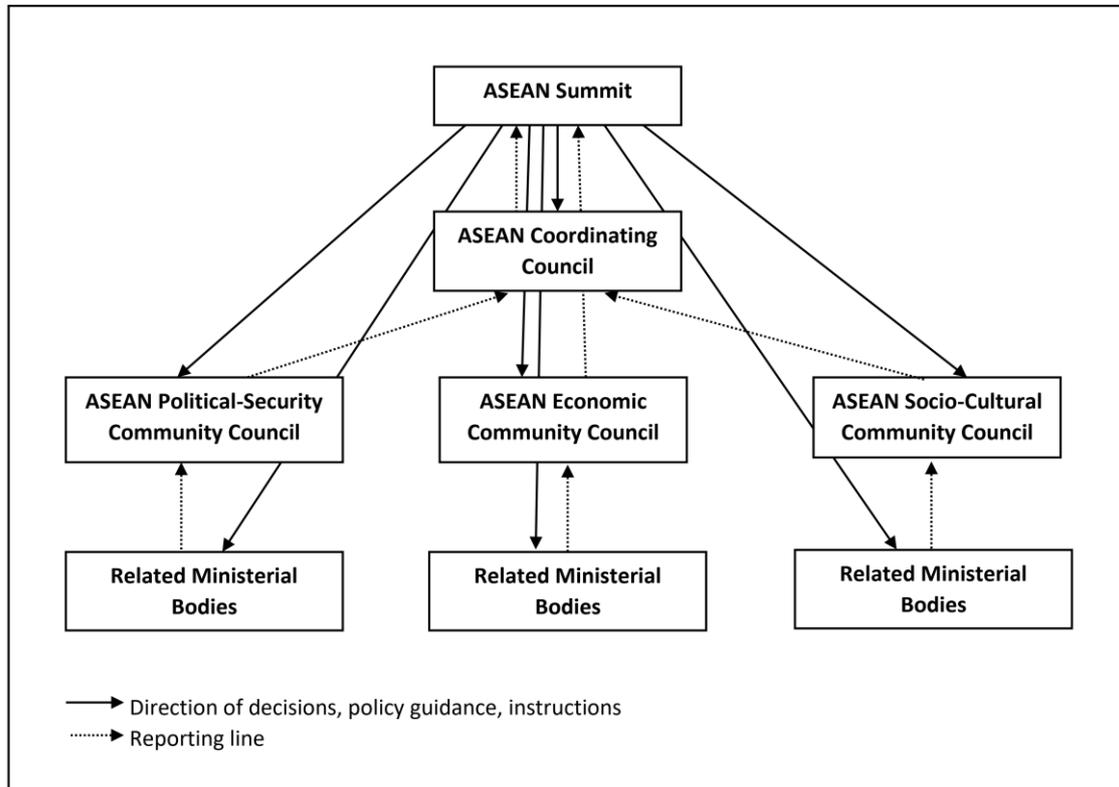


Figure 2. Decision-Making Structure in ASEAN
 Source: adopted from Feraru (2015)

Within the decisionmaking structure of ASEAN, the MoFA (through ACC) holds the ‘instruction’ mandate, enabling it to provide decisions or guidance, while the MoT (through AECC) is only granted with a ‘reporting’ mandate. Although the ASEAN Summit, which facilitates meetings between heads of states, holds the highest authority, ACC essentially plays a more prominent role since the actual consensus and decisionmaking processes occur at this level. The ASEAN Summit only functions as a forum that legitimises the decisions achieved at ACC and other ministerial meetings and is more of a ceremonial nuance. Formally, to initiate FTA negotiations with ASEAN, the prospective dialogue partner must submit a ‘Letter of Intent’, followed by a feasibility study involving both parties. In practice, feasibility study is a mere ‘formality’, as the study will always generate positive outcomes for both parties (Author’s Personal Interview, 2018).

Furthermore, it will be politically challenging for Indonesia (or other ASEAN members) to reject requests for FTA negotiations from its dialogue partners, considering

their past political relations.⁹ This situation implies that, from the perspective of the MoT, it will be harder to turn down FTA offers if they originate from ASEAN's dialogue partners due to their strategic role. However, this does not suggest that ASEAN is not concerned about commercial/economic factors in considering FTA offers,¹⁰ but rather that political consideration plays a dominant role in ASEAN-led FTAs. In other words, for ASEAN-based FTAs, MoFA plays a significant role in determining the FTA partners and considering that more than half of Indonesia's active FTAs are finalised through ASEAN, MoFA certainly holds a dominant place in Indonesia's FTA diplomacy.

MoFA's dominance in trade diplomacy is further strengthened by Indonesia's shifting strategy in diplomacy, where economic diplomacy is positioned as one of its main diplomatic pillars. Under Joko Widodo's (Jokowi) leadership, economic diplomacy holds a central position in Indonesian diplomacy and, in fact, during his second term, there is a tendency to divide the trade diplomatic authority between MoFA and MoT, where MoFA is expected to handle the diplomatic side and MoT is tasked with handling the technical issues (Yuniartha, 2019). This shift was followed by the appointment of a new Vice Minister of Foreign Affairs, Mahendra Siregar, an expert in trade issues and has previously worked for the MoT (Dewi, 2019), indicating Indonesia's effort to build synergy between the economic and political functions of Indonesian diplomacy. Before this, the government also studied the possibility of merging MoFA and MoT (Setiawan, 2019) or handing over the responsibility of conducting international trade agreements to MoFA (Hadyan, 2019), although none of these scenarios was actualised. What can be observed then, is that the growing inclusion of economic issues in Indonesia's foreign policy agenda also paves the way for an increasingly prominent role of foreign policy players in the overall Indonesian trade diplomacy.

Contrary to foreign policy players' ascending role in Indonesia's trade diplomacy, non-state actors' role in trade diplomacy remains highly limited. Although the Presidential Decree No. 82/2017 specifies that the Head of the Chamber of Commerce and Industry (*Kamar Dagang dan Industri* or KADIN) is also a member of the PPI team, this is not always the case in the actual practice. Interviews with representatives from the private sectors reveal that their involvement in the PPI team is rather minimal and are only involved on an *ad hoc* basis, rather than long-term involvement. This involvement also relies on two core factors, who the negotiating partner is and who the lead negotiator is (Author's Personal Interview, 2018). Several FTA partners, such as Australia and the EU, will request involvement from the private sectors during negotiations, enabling these

business entities to monitor the negotiation progress. However, if no such request is made, the private sectors are rarely involved. For instance, during the ASEAN-Hong Kong FTA negotiation in 2017, the private sectors were only invited towards the end of the process, when they were asked to deliver their opinions with no further follow-up by the government (Author's Personal Interview, 2018). In addition, the personal background and current workload of the lead negotiator are also important, since they correlate with the ability to mobilise the necessary resources and maintain strategic relationship and communication with the private sector. From previous experience, negotiators with trade background and less workload were more likely to involve private sectors than negotiators with non-trade background and/or more workload (Author's Personal Interview, 2018). This is perhaps because negotiators with trade-related backgrounds are more likely to have staff with a high level of technical expertise in trade and maintain a better relationship with the private sectors.

Akin to the private sector, involvement from the civil society groups in Indonesia's trade diplomacy is also limited, as there is no formal mechanism for their involvement. Legally, civil society's involvement in trade negotiations can only be done through their representatives in the Indonesian House of Representatives (*Dewan Perwakilan Rakyat* or DPR), as stipulated in Article 83, 84, and 85 of the Law No. 7/2014. Aside from this, civil societies do not have any legal basis to justify their *direct* involvement in trade negotiations, leading to their exclusion in most trade negotiations (Author's Personal Interview, 2018). There are, indeed, exceptions in several cases, most notably during the ASEAN-Australia-New Zealand FTA (AANZFTA) and RCEP negotiations when, the negotiating partners request civil society's involvement (Author's Personal Interview, 2018). Another situation when civil society groups are more likely to be involved is during the negotiations of a large-scale FTAs or FTAs that carry massive impacts—such as the RCEP—which causes the general public to be more aware of these FTAs and thus, can lead to stronger demands by the civil societies to be included in the negotiations (Author's Personal Interview, 2018).

Processes in Indonesia's FTA Diplomacy

In addition to the actor component, Indonesia's trade diplomacy processes also need to be taken into account, particularly on two core issues. *First*, the likelihood of negotiation inefficiencies since two decisionmaking models are present: the individual and collective decisionmaking model through ASEAN. *Second*, the ineffectiveness of Indonesia's

FTAs, particularly those initiated through ASEAN, since trade negotiation through ASEAN create additional complexities due to the multiple interests that needs to overlap. Effectiveness in this sense is defined as the fulfilment of economic purposes through FTAs and is measured by the FTA utilisation rate, which calculates the percentage of the private sector, which utilises these trade preferences.

Generally, FTA negotiations through ASEAN enables Indonesia to have stronger bargaining power since, collectively, Indonesia and other ASEAN member states can offer larger market size and more economic benefits, compared to individual negotiations. ASEAN-based FTAs also offer larger scope for ‘rules of origin (RoO)’ and ‘regional value content (RVC)’, compared to national-level FTAs, providing additional benefits for Indonesian exporters (Author’s Personal Interview, 2018). From the perspective of negotiating partners, collective negotiations through ASEAN are also more beneficial since it enables them to formulate trade agreements with multiple countries by engaging with a (supposedly) single party (Author’s Personal Interview, 2018). However, ASEAN negotiations also have downsides, such as the added complexity of consolidating multiple positions and eliminating several national interests.

For national-level FTAs, the decisionmaking process is simpler despite several challenges as well. Generally, FTA starts with a letter of intent from prospective partner, followed by a feasibility study, and commencing the negotiation. Once agreements are reached, these agreements will be sent to the legislative body for ratification purposes, and, lastly, implement the trade agreement. Throughout these processes, the main challenge is to consolidate the different positions of technical ministries, particularly regarding protectionism or liberalism for specific goods/services (Author’s Personal Interview, 2018). At the ASEAN level, the consolidation process is more difficult since ASEAN requires a regional common position first, before commencing negotiations with external partners; thus, adding another layer of complexity to the negotiation process. As a result, the content of ASEAN FTAs tends to be simpler (or shallower) compared to national-level FTAs since member states often face difficulties in consolidating their often-divergent positions. For example, during the interview, a negotiator from ASEAN’s external partner points that during the negotiation, although several ASEAN member states have agreed on the inclusion of government procurement in the agreement, several members reject this, and thus, the whole agreement is cancelled (Author’s Personal Interview, 2018). As a result, several ASEAN members, including Indonesia, decided to

undertake additional negotiations with similar partner(s) to accommodate issues which were not covered in ASEAN-based FTAs.

As portrayed in Table 1 and 2, Indonesia currently has or is negotiating several FTAs with similar partners as ASEAN's, which shows these overlapping tendencies. Looking at the content of these FTAs, individual FTAs obviously can offer a higher degree of commitment and a larger scope of cooperation (albeit smaller market size) since only one national interest is at play. However, the main problem with being involved in two FTAs with similar partner(s) is that it creates inefficiencies in negotiations. Referring to Table 1 and 2, Indonesia was involved in 21 FTAs within the last 15 years, where ten are conducted with similar partners. This is in addition to other overlapping agreements currently being explored such as the ASEAN-EU FTA (complementing the Indonesia-EU CEPA) and the ASEAN-Pakistan FTA (complementing the Indonesia-Pakistan FTA). Specifically, for Japan, Indonesia even signed its individual and ASEAN-based FTAs within the same year (2008), emphasising the inefficiencies in Indonesia's FTA diplomacy. On average, Indonesia is involved in one to two FTA negotiations per year and explores one to two possible FTAs per year since 2004 (Asia Regional Integration Center, 2020a). If ten (or a quarter) of these FTAs are arranged with similar partners, then obviously these negotiations' inefficiencies are quite high.

Aside from its efficiencies, the effectiveness of these FTAs also tends to decline when multiple FTAs overlap since private sectors only need to utilise one of these agreements. In general, an FTA's effectiveness can be measured by looking at the PUR or the percentage of businesses who are eligible and have utilised these FTAs relative to those who are eligible but did not utilise these FTAs (The Federation of German Industries, 2018). The PUR can be calculated using two methods, the national-level method by looking at the export/import form and the business level by distributing surveys to check which FTAs businesses use (Ing, Urata, & Fukunaga, 2015). Unfortunately, until now, Indonesia does not have (or publish) any comprehensive data on PUR. However, one interviewee from the MoT suggests that the average PURs in Indonesia ranges from 20% to 30% (Author's Personal Interview, 2018), which are still low compared to other countries. For instance, the average PUR in Singapore is 68%, meaning that more than half of its private actors have utilised Singapore's existing FTAs (Lim & Choo, 2015). Upon further scrutiny, Indonesia's PUR is even lower for ASEAN-based FTAs, since they offer less trade preferences.

Ing, et al. (2015) found that the utilisation rate for ASEAN-Japan FTA stood at only 6.6%, although Japan is one of ASEAN member states' main trading partners. Meanwhile, the highest utilisation rate for ASEAN-based FTA is ACFTA, at 32.7%. This is perhaps, not a coincidence considering Japan has the most FTAs with individual ASEAN member states while China has the least FTAs. What can be inferred then is that private sectors tend to use national-level FTAs as substitutes rather than complementary to ASEAN-level FTAs. It can be concluded, then, that overlapping FTAs lead to inefficiencies in negotiations and ineffectiveness in its utilisation.

Goals in Indonesia's FTA Diplomacy

The third element pertains to the goals of trade diplomacy, which can be classified into two types, the commercial/economic goals and foreign policy goals. Essentially, *trade* diplomacy is mostly expected to serve economic goals, although, in practice, all countries are likely also to accomplish non-economic purposes through its trading activities. For instance, Indonesia-China Strategic Partnership—which also encompasses trade cooperation—is one of Indonesia's diplomatic instruments utilised to influence China's acceptance of Indonesia's vision on international order (Priyandita, 2019). Within the context of FTAs, Indonesia's individual FTAs are more inclined to serve economic purposes compared to ASEAN-based FTAs due to several reasons. *First*, individual FTAs can offer a wider scope and a higher level of trade commitments than ASEAN-based FTAs, which is essentially more beneficial for economic actors. *Second*, ASEAN is historically more driven by external political-security considerations rather than economic ones and henceforth, its external relations, including in trade, will mainly revolve around political/foreign policy purposes as well.

Initially, ASEAN was established to maintain regional stability in Southeast Asia amidst the Cold War and its ideological divide. As ASEAN develops, it has started to incorporate economic cooperation and other issues, although political-security still holds a central role in ASEAN's overall affairs (Koga, 2014; Narine, 2008). The centrality of political security is also apparent in ASEAN's external relations where external *economic* relations are given less priority compared to external political or security relations. For example, within the ASEAN Secretariat organisational structure, the External Economic Relations Division, which is responsible for ASEAN's external trade relations, is positioned under the Market Integration Directorate, as a part of the ASEAN Economic Community Department. However, this division only has five personnel, including the

head of the division.¹¹ Meanwhile, within the ASEAN Political-Security Community Department, a separate directorate for external relations is present, which is divided into three main divisions, or approximately three times the resources of the external economic relations division.

The primacy of political and security issues is also evident in ASEAN member states' FTA practices, where countries opt for additional FTAs through ASEAN with a similar partner, despite already having concluded individual FTAs or other trade preferential arrangements which, economically, provide greater benefits. For instance, in ASEAN's FTA diplomacy with the EU, Cambodia, Laos, and Myanmar is unlikely to gain additional economic benefits since the EU has administered a unilateral trade preferences under the 'Everything but Arms (EBA)' Scheme (European Commission, 2018). Similarly, Singapore and Vietnam have also signed individual FTAs with the EU, with presumably, a higher level of trade preferences than what ASEAN can offer and yet, still decided to continue FTA negotiations via ASEAN. In an interview with representatives from these states, this decision was justified given the reasoning that they need to express their solidarity with fellow ASEAN member states, as ASEAN is their most important foreign policy circle (Author's Personal Interview, 2018). Furthermore, the interviewee pointed out that ASEAN-based FTAs should not be interpreted only as an economic instrument, but also a 'political signal' to other states on ASEAN's solidarity and unity (Author's Personal Interview, 2018). Within this context, foreign policy goals are clearly more prominent in ASEAN-based FTAs, compared to individual FTAs.

Noting that most of Indonesia's active FTAs are finalised through ASEAN (six out of ten FTAs), the economic ineffectiveness of these FTAs—as the previous section has illustrated—may also be a result of the strong foreign policy goals being at play. The existence of foreign policy goals is, indeed, justifiable, and in fact ASEAN have, perhaps, succeeded at this front. For example, RCEP is by far, the first platform that managed to bring together ASEAN's six dialogue partners—several of which are great regional powers – under one forum where ASEAN acts as the 'manager'. In fact, ASEAN has a habit of using these types of forums to maintain its central role and safeguard Southeast Asia's regional cohesiveness (Ba, 1997). However, while these goals are reasonable, the need to obtain foreign policy objectives should not undermine the economic goals, especially for Indonesia.

The problem with Indonesia is that since its trade diplomacy is characterised by a low level of involvement by private sectors and inefficiencies in negotiations, the

economic advantages of these FTAs may diminish overtime since these FTAs fail to acknowledge what private sectors and economic players need. As a comparison, Singapore actively involves its private sectors in FTA negotiations through questionnaires and regular updates of FTA negotiations (Author's Personal Interview, 2018). Therefore, although ASEAN-based FTAs will mostly fulfil the foreign policy goals, Singapore's individual diplomacy will always be aligned with the private sector's needs—as evidenced by the high PUR—and, thus, fulfilling their economic goals. Unfortunately, such efforts have yet to be seen in Indonesia.

CONCLUSION

Trade diplomacy, as the nexus between foreign policy and trade policy, will fundamentally consist of both economic and political dimensions. For Indonesia, this research reveals a bias towards the foreign policy dimension of trade diplomacy, compared to the economic ones as evidenced by three main aspects. Looking at the *actors* involved, Indonesia's FTA diplomacy is rather centralistic and is dominated by stakeholders in foreign policy-making with little involvement by non-state actors. In terms of the *processes*, Indonesia's trade diplomacy is characterised by a dualistic approach, where Indonesia engages in FTAs both individually and collectively through ASEAN, leading to inefficiencies in negotiation and the ineffectiveness of these FTAs. This ineffectiveness can be seen by the low FTA utilisation rates, particularly those initiated through ASEAN. Lastly, Indonesia's FTA diplomatic *goals* lean more towards achieving foreign policy goals, rather than economic ones, as exemplified by the number of FTAs signed and the economic benefits that they bring. ASEAN's emphasis on political-security goals also resulted in the primacy of foreign policy objectives in Indonesia's trade diplomacy, relative to economic ones.

Looking at these findings, Indonesia needs to reposition its FTA diplomacy to achieve larger economic goals. In doing so, Indonesia may opt for several possible courses of actions. *First*, Indonesia needs to incorporate private sectors and civil society groups to better connect with the public's need in its FTA negotiations. Indonesia can look at the EU's 'Civil Society Dialogue' model, where the EU provides a regular forum for different stakeholders to allow regular updates on FTA negotiations. This will, of course, rely heavily on the PPI team's workload, meaning that Indonesia also needs to comprehensively assess its ongoing FTA negotiations to ensure that the resources are distributed effectively and efficiently. *Second*, Indonesia needs to maximise ASEAN's

external economic relations division's role and function and focus more on the formulation and attainment of regional collective trade goals. Indonesia may explore the possibilities of creating an *ad hoc* team to design and formulate a template ASEAN FTA to reduce inefficiencies in negotiation. Along a similar line, ASEAN can also maximise the use of addendums in their FTA negotiations to provide leeway for member states who wish to engage in deeper commitments with external ASEAN partners.

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Note:

¹ These eleven FTAs include the ASEAN Free Trade Agreement (AFTA).

² There are several stages in the formation of an FTA: the 'proposed/under study' phase, in which initial planning and joint study are conducted; the 'under negotiation' phase; the 'signed but not yet in effect' phase, which indicates that the FTA has been signed but still needs to be ratified; and the 'signed and in effect' phase, meaning that the FTA has been fully implemented or entered into force (Asia Regional Integration Center, 2020b). Signing an FTA can also mean two things. First, countries sign the framework of agreement, which serves as a reference for further negotiations and second, countries sign the documents for the whole agreement simultaneously.

³ Members of OIC include Bahrain, Bangladesh, Côte d'Ivoire, Egypt, Guinea, Iran, Jordan, Lebanon, Malaysia, Maldives, Morocco, Nigeria, Oman, Pakistan, Qatar, Kuwait, Saudi Arabia, Senegal, Syria, Cameroon, Tunisia, Turkey, Uganda, United Arab Emirates, Benin, Burkina Faso, Chad, Comoros, Djibouti, Gabon, Gambia, Guinea-Bissau, Iraq, Libya, Mauritania, Niger, Palestine, Sierra-Leone, Somalia, and Sudan.

⁴ Indonesia and South Korea have concluded the negotiation process in October 2019 and is waiting for the final signing process, which is planned to be held in 2020.

⁵ At the time of writing, RCEP had not been signed.

⁶ Country coordinator (CC) refers to ASEAN's external relations management system, in which each ASEAN member state is mandated with the responsibility to become a coordinator for certain dialogue partners within the duration of three years. For example, Indonesia is currently the country coordinator for Russia in 2018-2021, and will serve as the country coordinator for the United States in 2021-2024 (ASEAN Secretariat, n.d.).

⁷ In managing its external relations, ASEAN categorised its partners into different levels/categories, which include dialogue partners (the highest level), followed by sectoral dialogue partners and development partners.

⁸ Legally, this prerequisite is not stated in any ASEAN legal documents, but in practice, all of ASEAN's FTA partners is also its dialogue partner.

⁹ In practice, ASEAN have *delayed* or *halted* negotiation processes with two dialogue partners: Canada and EU. For Canada, ASEAN suggested a slight delay since it needed to focus on RCEP negotiations and lack the resources to continue negotiation with Canada. For the EU, the EU itself suggested halting the negotiation process (2007-2009) but in 2016, the EU and ASEAN decided to reopen the negotiation (Author's Personal Interview, 2018).

¹⁰ The existence of commercial/economic considerations in ASEAN FTAs is still evident by looking at its choices of FTA partners, who are predominantly ASEAN's (and Indonesia's) largest trading partners. However, the utilisation rates of these FTAs are rather low and hence, their limited commercial benefits.

¹¹ This number was recorded in 2018, when the interviews for this research were conducted. Upon follow-up, the current number of staff is seven personnel and is projected to increase to a maximum of 14 personnel.