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**Unbalanced Economic Growth and Dynamic Trade
Specialization**

Tri Widodo and Samsubar Saleh

**Political Economy of Regional Integration:
Europe, East/Southeast Asia, Latin America
Compared**

Riza Noer Arfani

**The Impact of CAFTA Agreement on Trade,
Challenge and Opportunities**

Masyhuri

**ASEAN ECONOMIC COMMUNITY 2015:
Player or Spectator?**

Mudrajad Kuncoro

**Indonesia and the WTO Dispute Settlement
System**

Joseph Wira Koesnaldi and Junianto James Losari



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Editorial

It is a great pleasure in presenting to readers the first issue of 2010 of *the Journal of the World Studies* published by Center for the World Trade Studies Universitas Gadjah Mada (can be cited as *J. WTS U. Gadjah Mada*). In this issue we publish a collection of essay on the theme of *the WTO and the Third World*. Those articles arose from a joint program between Center for the World Trade Studies Universitas Gadjah Mada and the World Trade Organization Chairs Program (WCP). In this issue we present five selected papers which are contributed by our senior researchers who come from the Faculty of Agriculture, the Faculty of Business and Economics, the Faculty of Social and Political Science, and a practicing lawyer specialized in international trade cases.

Tri Widodo opens this issue by examining the impact of unbalanced economic growth upon countries' dynamic trade specialization. The writer concludes that domestic unbalanced economic growth has a positive and statistically significant impact on dynamic trade specialization in the cases of Indonesia and Malaysia, but not in the cases of Korea and Singapore. However, the world unbalanced economic growth has a statistically insignificant impact on the all selected countries' dynamic trade specialization.

The second essay is written by Riza Noer Arfani start by arguing that despite resilient trends towards globalized economy, the post-cold war landscape of international political economic relations has been characterized by wide-ranging regional arrangements. The process predominantly aims at easing trans-border management in the frame of liberalizing economic relations. East/Southeast Asian and Latin American regional arrangements in particular are among major examples. The establishment of ASEAN Free Trade Area covering ten Southeast Asian countries which recurrently to be engaged with their East Asian neighboring partners (the so-called ASEAN+3) and MERCOSUR (Mercado Comun del Sur/the Common Market of the South) consisting of 4 (four) southernmost countries of South American continent is the milestone to further regional economic integration in each respective area.

In his paper, Masyhuri discuss the theoretical and possible impact of CAFTA on trade particularly in Indonesia. Since some products will be exported and imported more, this will increase production of some products and decrease production of some other products. The final benefit results will be depended on the readiness of the country. Masyhuri suggests to digging more benefit and to prevent losses through the promotion of some product, the protection of domestic production and increase the competitiveness of the country.

This issue of the Journal also discusses forms and steps in order to establish AEC 2015 as AFTA Plus, and also argue challenges in ASEAN and in Indonesia which is wide gaps among ten members of ASEAN to run program commitment of AEC. Mudrajad Kuncoro delivers that in Indonesian perspective, the relevant program would be

establishment of presidential decree concerning ratification of Protocol to Implement the Third Package of Commitments on Financial Services under the ASEAN Framework Agreement on Services (AFAS).

The last but not least is a paper written by Joseph Wira Koesnaldi who conclude that Indonesia has much homework if it wants to be more active using the WTO Dispute Settlement System to secure its trading rights under the WTO. The government of Indonesia should see the importance of WTO litigations for its national interests, optimism on the future of Indonesia and WTO Dispute Settlement System should be built since WTO is a rule-based system and its major achievement is to have an effective dispute settlement mechanism.

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Unbalanced Economic Growth and Dynamic Trade Specialization

Tri Widodo and Samsubar Saleh¹

Abstract

This paper examines the impact of unbalanced economic growth upon countries' dynamic trade specialization. Firstly, we identify theoretically the impact. Secondly, we construct an econometric model to investigate the impact. We employ revealed symmetric comparative advantage (RSCA) index as an indicator of trade specialization and coefficient of variation (CV) of sectoral output growth as an indicator of unbalanced economic growth. Thirdly, we apply empirically the model in the cases of Korea, Singapore, Indonesia and Malaysia. We conclude that domestic unbalanced economic growth has a positive and statistically significant impact on dynamic trade specialization in the cases of Indonesia and Malaysia, but not in the cases of Korea and Singapore. However, the world unbalanced economic growth has a statistically insignificant impact on the all selected countries' dynamic trade specialization.

Keywords: Impact, unbalanced economic growth, RSCA.

A. Introduction

Theory of static comparative advantage postulates that countries will specialize in products with comparative advantage and import products with comparative disadvantage. Factor endowments affect countries' capacity to produce goods and services as reflected by their production possibility frontiers (PPF). The effects of factor endowments on international trade therefore become a critical issue since they also determine countries' comparative advantage. Countries with abundant factor endowments have more opportunities to attain economies of scale in the production of goods and services. Heckscher² and Ohlin³ examine the effects of

factor endowments on international trade. The trade model of theirs is often referred to as the Heckscher-Ohlin (H-O) model.

In fact, a country's comparative advantage shifts dynamically due to the changes in supply and demand sides in both domestic and international markets. The supply side is related to PPF; meanwhile, the demand side is related to community preference (community indifference curve, CIC). On this matter, Echevarria⁴ notes two relevant findings. *First*, in the long run, comparative advantage is driven by total factor productivity (TFP) differential. This explains the fact that less developed countries are likely to export primary commodities even though they are not less capital-intensive. *Second*, non-homothetic preferences imply fewer countries export only or mostly primary commodities as

¹ Lecturer of Faculty of Economics and Business, Universitas Gadjah Mada, Indonesia

² Heckscher, E.F., "The Effect of Foreign Trade on The Distribution of Income," in Howard S. Ellis and Lloyd A. Metzler, (Eds.). *Readings in the Theory of International Trade*. American Economic Association. Philadelphia: Blakiston, 1919.

³ Ohlin, B. *Interegional and International Trade*.

Cambridge, MA: Harvard University Press, 1933.

⁴ Echevarria, C. "International Trade and The Sectoral Composition of Production," *Review of Economic Dynamics* 11 (2008):192-206.

the global economy develops. Many other researchers also consider a country's comparative advantage in dynamic sense rather than static one. So far, the dynamic theory of comparative advantage has put greater attention on changes of the supply (production) side. This is related to how specific determinants affect the output (economic) growth and, in turn, comparative advantage. Redding⁵ finds that comparative advantage is endogenously determined by the past technological changes and innovation. The dynamics of comparative advantage might be also caused by the role of input trade⁶, the friction in international trade and investment flows due to geography, institutions, transport, and information cost⁷, the transmission of knowledge across borders⁸, the technological differences across border⁹, and the monopolistic competition in differentiated products with increasing return to scale.¹⁰

This paper aims to examine the impact of unbalanced economic growth upon dynamic trade specialization. Korea, Singapore, Indonesia and Malaysia are chosen for the case studies. The rest of

this paper is organized as follows. Section II describes the theoretical framework. Section III shows the methodology. Sections IV represents results and analysis. Finally, several conclusions are presented in Section V.

B. Theoretical Framework

This section describes theoretically the relationship between economic growth and trade specialization. Suppose a small country (price taker in international market) uses its available inputs labor (L) and capital (K) to produce competing outputs X (*labor-intensive* good) and Y (*capital-intensive* good). Let us assume the country is relatively a labor-abundant country. In addition, the country has a production possibility frontier (PPF) and a community indifference curve (CIC), as depicted by PPF_0 and CIC_0 in Figure 1, respectively. The international term of trade is $(P_X/P_Y)_{Int}$. The initial equilibriums in both production and consumption are at points A and B, respectively. The volume of international trade is shown by the triangle ABC i.e. exports of X (quantity: CA) for the imports of Y (quantity: CB).

With economic growth, the PPF shifts outward, allowing the country to choose different production combinations of X and Y. The various new possible equilibriums in production are located within the regions fixed by the mini-axes drawn through the original production equilibrium at point A. If the new equilibrium in production lies on the straight line OP, the economic growth is *product-neutral*, since productions of the export good and the import competing good have increased in the same rate. If the new equilibrium lies in region I_p , it is *protrade-biased* (reflecting the relatively greater availability of the export good);

⁵ Redding, S. "Specialization Dynamics," *Journal of International Economics* 58 (2002): 299-334.

⁶ Jones, R.W. *Globalization and the Theory of Input Trade* (Cambridge: MIT Press, 2000).

⁷ Venables, A.J. "Geography and International Inequalities: The Impact of New Technology," (Paper Prepared for ABCDE, World Bank, Washington DC, 2001).

⁸ Grossman, G.M. and Helpman, E. *Innovation and Growth in the Global Economy* (Cambridge: The MIT Press, 1991).

⁹ Trefler, D. "The Case Missing Trade and Other Mysteries," *American Economic Review* 85(5):1029-46, 1995.

¹⁰ Krugman, P.R. "Increasing Returns, Monopolistic Competition, and International Trade," *Journal of International Economics* 9 (1979): 469-79.

in region II_p , it is *ultra-protrade-biased*; in region III_p , it is *antitrade-biased* (reflecting the relatively greater availability of the import-competing good); and in the region IV_p , it is *ultra-antitrade-biased*.

Figure 1 about here.

In addition, the economic growth will also affect the consumption equilibrium. The consumption effect of growth on trade can be isolated by the mini-axes whose origin is at initial consumption equilibrium B. If the new equilibrium point is on the straight line OK, consumption of both goods X and Y will increase proportionally and the consumption trade effect will be *neutral*. If the new consumption equilibrium point falls in region I_c , it is a *pro-trade consumption* effect; in region II_c , it is an *ultra-protrade consumption* effect; in region III_c , it is an *anti-trade consumption* effect; and in region IV_c , it is *ultra-antitrade consumption* effect.

Economic growth can result from the changes in technology (i.e. *factor-neutral*, *labor-saving* or *capital-saving*) or the accumulation of factors of production (i.e. factor-neutral growth, relatively higher growth in capital or relatively higher growth in labor). Economic growth can be categorized into two types, balanced and unbalanced growth.¹¹ The former is shown by the shifts out of PPF in an equiproportional manner and the later is shown by the shift out of PPF not in the same proportion. They are depicted in panels (a) and (b) of Figure 2, respectively. In panel (a), the balanced economic growth affects *product-neutral* in consumption and *neutral* in consumption. This creates bigger amount of international

trade shown by the bigger triangle $A'B'C'$ than ABC. In panel (b), the unbalanced economic growth affects *antitrade-biased* in production and *neutral* in consumption. This creates smaller amount of international trade shown by triangle $A''B''C''$ which is smaller than ABC.

Figure 2 about here.

Figure 2 only shows the two of possible relationships between economic growth and trade specialization. Whether a country becomes more-specialized or less-specialized after the economic growth depends upon the kinds of growth (balanced or unbalanced), the effects on production (*ultra-protrade*, *protrade*, *neutral*, *anti-trade* or *ultra-antitrade*) the effects on consumption (*ultra-protrade*, *protrade*, *neutral*, *antitrade* and *ultra-antitrade*) and the initial country's factor endowments (L-abundant or K-abundant).¹² All the possible relationships are described in Table I.

Table I about here.

C. The Method And Data

The previous section describes theoretically various possible impacts of economic growth upon dynamic trade specialization. In this section, we show an econometric model to analyze empirically the impact.

1. Index of comparative advantage

In this paper, an index of trade specialization namely the Revealed Symmetric Comparative Advantage

¹¹ Todaro, M. and S. Smith. *Economic Development* 9th ed. (Addison-Wesley series in economics, 2006).

¹² Appleyard, D.R. and Field, A.J.J.R. *International Economics*. Fourth Edition. (New York: McGraw-Hill, 2001).

(RSCA) index is employed. The index is a simple transformation of the Revealed Comparative Advantage (RCA) index by Balassa (1965).¹³ The RCA and RSCA are formulated as follows:

$$(1) \text{ RCA}_{ij} = (x_{ij} / x_{in}) / (x_{rj} / x_{rn})$$

$$(2) \text{ RSCA}_{ij} = (\text{RCA}_{ij} - 1) / (\text{RCA}_{ij} + 1)$$

where RCA_{ij} denotes revealed comparative of country i for group of products (Standard International Trade Classification, SITC) j and x_{ij} represents total exports of country i in group of products (SITC) j . Subscript r denotes all countries without country i , and subscript n stands for all groups of products (SITC) excepting group of product j . By excluding the country and group of products under consideration, double counting is avoided; therefore, bilateral exchange of goods between two countries is more exactly represented.^{14 15}

The values of the RCA index range from zero to infinity ($0 \leq \text{RCA}_{ij} < \infty$). RCA_{ij} greater than one implies that country i has comparative advantage in group of products j . In contrast, RCA_{ij} less than one means that country i has comparative disadvantage in product j . Since the RCA_{ij} turns out to have values that cannot be compared on both sides of one, the index is made to be a symmetric index.¹⁶ The index

is called Revealed Symmetric Comparative Advantaged (RSCA). The RSCA_{ij} index ranges from one to one (or $-1 \leq \text{RSCA}_{ij} \leq 1$). RSCA_{ij} greater than zero implies that country i has comparative advantage in product j and if it is less than zero implies that country i has comparative disadvantage in product j .

2. Dynamics of trade specialization

The RSCA index is used to examine dynamic changes in comparative advantage.¹⁷ The following simple regression model is applied:

$$(3)$$

$$\text{RSCA}_{ij,T} = \alpha_{i,0-T} + \beta_{0-T} \text{RSCA}_{ij,0} + \varepsilon_{ij,T}$$

where $\text{RSCA}_{ij,T}$ and $\text{RSCA}_{ij,0}$ are Revealed Symmetric Comparative Advantage of country i in product j for years T and 0 , respectively. ε_{ij} denotes white noise error term. The coefficient β_{0-T} indicates whether the existing comparative advantage or specialization patterns have been reinforced or not during the period of observation ($0-T$).

and The Alternatives as Measures of International Specialization. *DRUID Working Paper*. No 98-30. Danish Research Unit for Industrial Dynamics (DRUID), 1998.

¹⁷ We apply RSCA instead of RCA for at least three reasons as mentioned by Volrath (1991), Laursen (1998) Aiginger (1999) and Wörz (2005), among others. *First*, RCA is not comparable on both side of unity since the index ranges from zero to infinity. A country is said not to be specialized in a given product if the index ranges from zero to one. In contrast, a country is said to be specialized in a given product if the index ranges from one to infinity. *Second*, if RCA is used in estimating the econometric model, one might obtain biased estimates. RCA has disadvantage of an inherent risk of lack of normality in its distribution. A skewed distribution violates the assumption of normality of the error term in regression analysis, thus not providing reliable inferential statistic. *Third*, the use of RCA in regression analysis gives much more weight to values above one, when compared to observation below one.

¹³ Balassa, B. "Trade Liberalization and 'Revealed' Comparative Advantage," *The Manchester School of Economics and Social Studies* 33(2): 99-123, 1965.

¹⁴ Wörz, J. "Dynamic of Trade Specialization in Developed and Less Developed Countries," *Emerging Markets Finance and Trade* 41(3): 92-22, 2005.

¹⁵ Vollrath, T.L. "A Theoretical Evaluation of Alternative Trade Intensity Measures of Revealed Comparative Advantage," *Weltwirtschaftliches Archiv* 127 (1991): 265-80.

¹⁶ Laursen, K. "Revealed Comparative Advantage

We define a product as the 3-digit Standard International Trade Classification (SITC). For illustration of dynamic trade specialization, Figure 3 represents RSCAs for SITC 001 and SITC 002 in 1995 (horizontal axis) and 2005 (vertical axis), respectively. If $\beta_{1995-2005}$ is not significantly different from one ($\beta_{1995-2005}=1$), there is no change in the overall degree of specialization. The difference between $RSCA_{001,1995}$ and $RSCA_{002,1995}$ (AB) equals the difference between $RSCA_{001,2005}$ and $RSCA_{002,2005}$ (DE). $\beta_{1995-2005}$ greater than one indicates increased specialization of the respective country. The difference between $RSCA_{001,1995}$ and $RSCA_{002,1995}$ (AB) is smaller than difference between $RSCA_{001,2005}$ and $RSCA_{002,2005}$ (EF). Finally, $0 < \beta_{1995-2005} < 1$ indicates despecialization – that is, a country has gained comparative advantage in industries where it did not specialize and has lost competitiveness in those industries where it was initially heavily specialized (Wörz, 2005).¹⁸ In the event of $\beta_{1995-2005}$ less than or equal to zero, no reliable conclusion can be drawn on purely statistical grounds; the specialization pattern is either random, or it has been reversed.

Figure 3 about here.

Since the data for estimating equation (3) is cross section (by SITC); we might have to deal with the violation of the assumptions of the classical regression. Conventional wisdom says that the problem of autocorrelation is a feature of time series data and heteroscedasticity is a feature of cross-sectional data.¹⁹ Therefore, we can expect that heteroscedasticity might be in our

case. Wörz²⁰ also finds that heteroscedasticity is initially a problem; therefore, the robust standard errors computed using the White/sandwich estimator of variance is then employed.

The existence of autocorrelation also might be possible. When the form of heteroscedasticity is not known, it might not be possible to get efficient estimates of the parameter using weighted least squares (WLS). The ordinary least squares (OLS) gives consistent parameter estimates in the presence of heteroscedasticity but the usual OLS standard errors will be incorrect and should not be used for the inference purposes. Therefore, this paper applies Heteroscedasticity and Autocorrelation Consistent Covariance (HAC) when the usual OLS has violated the homoskedasticity or no-autocorrelation assumptions.²¹

There are two possible approaches to be applied i.e. Heteroscedasticity Consistent Covariance (White) and HAC Consistent Covariance (Newey-West).²² To determine which approach is suitable for a specific model, we follow three stages. *First*, the OLS is applied and then the residual testing on heteroscedastity and

¹⁸ Ibid.

¹⁹ Gujarati, D. *Basic Econometrics* (New York: McGraw Hill, 1991).

²⁰ Ibid.

²¹ It is important to note that HAC (either the White Heteroscedasticity consistent or the Newey-West HAC consistent covariance estimates) does not change the point estimates of the parameters, only the estimated standard errors.

²² See EViews 4 User's Guide for the detailed explanation. White (1980) formulates a heteroscedasticity consistent covariance matrix estimator that provides correct estimates of the coefficient covariance in the presence of heteroscedasticity of unknown form. The White covariance matrix assumes that the residuals of the estimated equation are serially uncorrelated. Newey and West (1987) derive a more general estimator that is consistent in the presence of both heteroscedasticity and autocorrelation of unknown form.

autocorrelation are conducted. If the test shows that there are no autocorrelation and heteroscedasticity simultaneously, then we use the OLS estimates. *Second*, if only heteroscedasticity exists, we apply the White Heteroscedasticity Consistent Covariance. *Third*, if the autocorrelation and heteroscedasticity exist, we apply the HAC Consistent Covariance (Newey-West).

3. Unbalanced economic growth

From the data of Gross Domestic Product (GDP) by sectors, we calculate the output growth of a specific sector s for the period 0-T in country i :

$$(4) \quad g_{is,0-T} = (GDP_{is,T} - GDP_{is,0}) / GDP_{is,0}$$

where $GDP_{is,T}$ and $GDP_{is,0}$ are the country i 's growth rate of sector s in years T and 0 , respectively. The output growth of a specific sector might differ from that of other sectors. This is referred to as unbalanced economic growth. Hence, the unbalanced economic growth can be shown by the dispersion of output growth of sectors. We use the coefficient of variation (CV) to indicate the dispersion of output growth of sectors (unbalanced economic growth). The coefficient of variation of sectoral output growth for the period 0-T is formulated as follows:

$$(5) \quad CVG_{0-T} = \frac{\sqrt{\left(\sum_{s=1}^n (g_{is,0-T} - \bar{g}_{i,0-T})^2 \right) / n}}{\bar{g}_{i,0-T}}$$

where $\bar{g}_{i,0-T}$ is the country i 's average growth rate for the period 0-T. It is clear that if all sectors have the same growth of output (balanced economic growth), the coefficient of variation will equal zero.

This equation (5) is applied to calculate the unbalanced domestic economic growth ($CVGD_{0-T}$) and the unbalanced world economic growth ($CVGW_{0-T}$)

4. Econometric model

To investigate the impact of unbalanced economic growth on the dynamic trade specialization, we make and estimate the following regression model:

(6)

$$DS_{0-T} = \mu_0 + \mu_1 CVGD_{0-T} + \mu_2 CVGW_{0-T} + \varepsilon_T$$

where DS_{0-T} is the degree of dynamic specialization ($\hat{\beta}_{0-T}$) in the period 0-T obtained from the estimation of Equation (3); $CVGD_{0-T}$ and $CVGW_{0-T}$ represent the coefficients of variation of domestic economic growth and of world economic growth for the period 0-T, respectively; μ_0 , μ_1 and μ_2 denote constant and coefficients; and ε_T is the white noise error term.

The interpretation of Equation (6) is obvious. When a country (i) and the world have a balanced economic growth ($CVGD_{0-T} = 0$ and $CVGW_{0-T} = 0$), the degree of dynamic trade-specialization will be constant and equal to μ_0 . In contrast, when the country (i) and the world have an unbalanced economic growth ($CVGD_{0-T} \neq 0$ and $CVGW_{0-T} \neq 0$), the impact of unbalanced economic growth depends on the estimated coefficients μ_1 and μ_2 . If μ_1 and μ_2 are negative, the unbalanced economic growth of domestic and the world contribute to the decreasing specialization (de-specialization). In contrast, μ_2 , if μ_1 and μ_2 are positive, the unbalanced economic growth of domestic and the world contribute to the increasing specialization.

5. Data

We use data on exports by the 3-digit Standard International Trade Classification (SITC) Revision 2 obtained from the United Nations Commodity Trade Statistics Database (UN-COMTRADE) and data on Gross Domestic Products (value added) by economic activities (sectors) taken from the United Nations Statistics Division (UNSD) for the period 1979-2005. GDP are broken down into seven following sectors: (1) Agriculture, hunting, forestry and fishing, (2) Mining, manufacturing and utilities, (3) Manufacturing, (4) Construction, (5) Wholesale, retail trade, restaurants and hotels, (6) Transport, storage and communication, (7) Other activities.

6. Estimation

Since our data for estimating Equation (6) is time series one, we might have to deal with the serial autocorrelation (or heteroscedasticity) problem. Therefore, original Ordinary Least Squares (OLS) method for estimating might be not appropriate. We proceed to estimate the equation by using the simplest and most widely used model of serial correlation, i.e. assuming error term is an autoregressive AR(1) process. The error term is specified as $\varepsilon_T = \rho\varepsilon_{T-1} + v_t$, where the parameter ρ is the first-order serial correlation coefficient, v_t is a white noise error term.

D. Results and Analysis

To show the empirical relevance of the model previously described, we apply the model in the cases of Korea, Singapore, Indonesia and Malaysia.

1. Trends in trade specialization and unbalanced economic growth

In Figure 4, panels (a), (b), (c) and (d) show trends in the coefficients of dynamic specialization (DS) obtained by applying Equation (3), and the coefficients of variation of the world and domestic sectoral-growth (CVGW and CVGD, respectively) obtained by applying Equation (4) in the cases of Korea, Singapore, Indonesia and Malaysia. In general, the coefficients of dynamic specialization are relatively constant and just under unity (1). This implies that all countries show de-specialization process over time. The countries may have trade-off between specialization in their existing products (with high comparative advantage but low level in technology) and specialization in the other products with much potentiality for comparative advantage in the future as the result of high productivity growth. The Asian financial crisis in 1997 has hit the Korean comparative advantage harder than the three other countries. This is shown by the more drastic decrease in the coefficient of Korean dynamic specialization during the period 1997-2001. The decrease means that Korea has de-specialized enormously her comparative advantage during that period.

Figure 4 about here.

All the selected countries are in the East Asian region where intra-regional trade (IIT) and inter-dependent activities, such as product fragmentation, have increased significantly. De-specialization has been strongly promoted by the shifts in the pattern of trade in the region. International production fragmentation

has become an interesting phenomenon²³ and led to *de facto* economic integration in East Asia.^{24 25} It is defined as cross-border dispersion of component production/assembly within the vertically integrated production process, with each country specializing in particular stage of the production sequence.²⁶ The international production sharing is strongly supported by the belief that the most important determinant of productivity (economies of scale) or unit costs is not the size of plant but how production is organized within a plant of a given size. As far as the production fragmentation is concerned, the convergence in the pattern of comparative advantage takes place in the region. As a result, de-specialization occurs in the countries in the region.

The shifts in the pattern of comparative advantage in East Asian countries follow the 'flying geese' (FG)

pattern^{27 28} Rana²⁹ finds some links between changes in the pattern of trade and economic development, and points out that the shifts in comparative advantage were significant from Japan to the NIEs and the ASEAN4 and from the NIEs to the ASEAN4. Similarly, Fukasaku (1992)³⁰ finds that the pattern of trade within Asia has gradually shifted away from inter-industry trade toward intra-industry trade. As far as the Asian economies become increasingly integrated and interdependent, the intra-industry trade has stronger grounds to exist. More recently, Dowling and Cheang (2000)³¹ find that comparative advantage has shifted from Japan to the NIEs and the ASEAN4 during the period 1985 to 1995. In addition, they also note that Japanese FDI has

²⁷ The 'flying geese' paradigm was introduced by Kaname Akamatsu in the 1930s in the several articles available only in Japanese. Kaname Akamatsu showed himself in the world academia after the World War II in the two articles (1961, 1962) in English. 'Flying geese' model intends to explain the catching-up process of industrialization of latecomer economies from intra-industry, inter-industry and international aspects. It might be argued that the structural transformation of industrialization in East Asia follows this 'flying geese' formation. Garment, Steel, Popular TV, Video and HDTV are frequently used to illustrate the formation. Those products have been transferred from Japan to Newly Industrializing Economies (NIEs: Hong Kong, Taiwan, Singapore and Korea); from NIEs to the ASEAN4 (Malaysia, Indonesia, Thailand and Philippines); from the ASEAN4 to latecomers and latest-comers.

²⁸ Kojima, K. "The 'Flying Geese' Model of Asian Economic Development: Origin, Theoretical Extensions, and Regional Policy Implications," *Journal of Asian Economics* 11 (2000): 375-401.

²⁹ Rana, P.B. "Shifting Comparative Advantage among Asian and Pacific Countries," *The International Trade Journal* 4 (1990): 243-257.

³⁰ Fukasaku, K. "Economic Regionalization and Intra-industry trade Pacific-Asian Perspective," Research Program on Globalization and Regionalization OECD, 1992.

³¹ Dowling, M. and Cheang, C.T. "Shifting Comparative Advantage in Asia: New Tests of The 'Flying Geese' Model," *Journal of Asian Economics* 11 (2000): 443-463.

²³ The alternative names are frequently used such as 'vertical specialization' (Hummels *et al.*, 2001, Yi 2003), 'slicing the value chain' (Krugman 1995).

²⁴ Fouquin, M., D. Hiratsuka and F. Kimura. "Introduction: East Asia's De Facto Economic Integration". In Hiratsuka, Daisuke (ed.). *East Asia's De Facto Economic Integration*. New York: Palgrave Macmillan. pp. 1-15, 2006.

²⁵ Ng, F. and A. Yeats. "Major Trade Trends in East Asia: What Are Their Implications for Regional Cooperation and Growth?" *Policy Research Working Paper*. The World Bank, Development Research Group Trade, June 2003.

²⁶ Athukorala, P. and N. Yamashita. "Production Fragmentation and Trade Integration: East Asia in A Global Context," *North American Journal of Economic and Finance* 17(3): 233-256, 2006.

been used to recycle comparative advantage and to use resources in the ASEAN4.

The coefficients of variation of sectoral growth in the four selected countries and in the world are not zero and fluctuated over time. This indicates unbalanced economic growth in the countries and in the world. By comparing the coefficient of variation of domestic and the world sectoral growths, it is clearly shown that domestic sectoral-growth is more unbalanced and even more fluctuated than that of the world. Theoretically, non-homothetic preference causes "structural change" from agricultural sector basis toward manufacturing and services.³²
³³ ³⁴ This typically companies unbalanced economic growth. The relative change in contribution of each sector to total output is a consequence of Engel's law, where aggregate consumption of agricultural commodities increases less than proportionally with growth of per capita income. Extensive industrialization in East Asia has also been the main reason for unbalanced economic growth. It is spurred by the innovation³⁵ ³⁶, role of technology³⁷ and accumulation of human capital.³⁸ Following the FG pattern,

³² Ibid

³³ Chenery, H. and Syrquin, M. *Pattern of Development, 1950-1970* (London: Oxford Univ. Press, 1975).

³⁴ _____. "Typical Pattern of Transformation." In Chenery, H., Robinson, S., Syrquin, M. (Eds.). *Industrialization and Growth: A Comparative Study*. New York: Oxford Univ. Press, 1986.

³⁵ Romer, P. "Increasing Return and Long-run Growth," *Journal of Political Economy* 94 (1986): 1002-1037.

³⁶ _____. "Endogenous Technical Change," *Journal of Political Economy* 98 (1990): S71-S102.

³⁷ Edwards, S. 1992. "Trade Orientation, Distortions and Growth in Developing Countries," *Journal of Economic Development* 39 (1992): 31-57.

³⁸ Lucas, R.E. "Making a miracle," *Econometrica* 61(1993): 251-272.

the increasing number of industries in East Asian region plays important role in the shifts of comparative advantage.

2. Estimation results

Table II shows the estimation results of the econometric model (6) in the cases of Korea, Singapore, Indonesia and Malaysia. The constant (μ_0) shows the dynamic specialization when the domestic economic growth and the world economic growth are balanced type. Excepting Singapore, the constants are estimated to be less than unity. This implies that Korea, Indonesia and Malaysia will have de-specialization if the domestic economic growth and the world economic growth are simultaneously balanced type. It is estimated that if Korea, Indonesia, Malaysia and the World had balanced economic growth, Korea would have faster de-specialization than Indonesia and Malaysia since her constant (0.852) is smaller than the two countries (0.94 and 0.76 for Indonesia and Malaysia, respectively).

Table II about here.

We find mixed results about the impact of unbalanced economic growth upon the countries' dynamic specialization. In the cases of Korea, Indonesia and Malaysia, their domestic unbalanced sectoral-growth has caused the increase in specialization. Moreover, the coefficients are statistically significant for Indonesia and Malaysia. The more unbalanced is the domestic economic growth, the more specialized is the exports. This finding supports the argument on the positive relationship between growth and trade

specialization. Many researchers also confirm the positive relationship based on various determinants: market expansion encourages new trade opportunities³⁹⁴⁰; transmission of technical relationships leads learning-by-trading⁴¹⁴²⁴³; the existing arrangement provides the possibility of knowledge spillovers (Grossman and Helpman 1991)⁴⁴ and imitation and diffusion.⁴⁵

In contrast, in the case of Singapore the domestic unbalanced sectoral-growth has negative effect on its dynamic specialization. In this case, the more unbalanced is the domestic economic growth, the less specialized is the exports. Several criticism and controversies are addressed toward the argument on positive relationship between economic growth and trade specialization⁴⁶. Edwards⁴⁷ and Rodrik⁴⁸ and Frankel et al.⁴⁹ note that

³⁹ Ibid

⁴⁰ Rivera-Batiz, L.A. and Romer, P.M. "Economic Integration and Endogenous Growth," *Quarterly Journal of Economics* 105 (1991): 531-555.

⁴¹ Goh, A. and Oliver, J. "Learning by Doing, Trade in Capital Goods and Growth," *Journal of International Economics* 56 (2002): 411-444.

⁴² Grossman, G.M. and Helpman, E. "Comparative Advantage and Long-run Growth," *American Economic Review* 80 (1990): 796-815.

⁴³ Young, A. "Learning by Doing and Dynamic Effects of International Trade," *Quarterly Journal of Economics* 106 (1991): 365-405.

⁴⁴ Ibid

⁴⁵ Segerstrom, P.S., Anant, T.C.A. and Dinopoulos, E. "A Schumpeterian Model of The Product Life Cycle," *American Economic Review* 80 (1990):1077-1092.

⁴⁶ See, for example, Edwards (1998) and Frankel et al. (1996) for the detailed discussion.

⁴⁷ Ibid

⁴⁸ Rodrik, D. "The 'Paradoxes' of The Successful State," *European Economic Review* 41 (1997): 411-442.

⁴⁹ Frankel, J.A., Romer, D., and Cyrus, T. Trade and Growth in East Asian Countries: Cause and Effect? *NBER Working Paper* No. 5732, Cambridge, 1996.

trade reduce the incentive for research and in turn long-run growth. 'No sufficient common pool of knowledge' creates comparative advantage in the sector with the lesser long-run growth prospect.⁵⁰⁵¹

In the global level, researches mostly agree that unbalanced development path affected the composition of the global trade. However, there are fewer researches on how unbalanced development path has affected country trade specialization.⁵² We find that the all selected countries show that the world unbalanced economic growth has no significant effect on the countries' dynamic specialization. The estimate coefficients of unbalanced world economic growth (CVWG) are statistically insignificant. This implies that the countries' dynamic specialization is a domestic issue rather than an international competition one. In addition, the countries are considered as small countries in the world competition and they behave as 'price taker'. Hence, the world economic growth is as a given thing and the countries only adjust their trade specialization based on domestic supports such as technologies, infrastructures, human resources, capital, labor, etc. Chenery and Syrquin⁵³⁵⁴ note a gradual shift away from agricultural production toward manufacturing and services. Kuznet⁵⁵ also indicates this shift.

⁵⁰ Matsuyama, K. "Increasing Returns, Industrialization and Indeterminacy of Equilibrium," *Quarterly Journal of Economics* 106 (1991): 617-650.

⁵¹ Ibid

⁵² Ibid

⁵³ Ibid

⁵⁴ Ibid

⁵⁵ Kuznets, S. "Modern Economic Growth: Finding and reflections," *American Economic Review* 63 (1973): 247-258.

E. Conclusions

This paper examines the impact of unbalanced sectoral-growth upon countries' dynamic trade specialization. *First*, we identify theoretically the impact. Whether unbalanced economic growth causes the shifts in countries' trade specialization is ambiguous. The impact depends on the supply and demand sides as shown by the effects on production (*ultra-protrade, protrade, neutral, antitrade* and *ultra-antitrade*) and on consumption (*ultra-protrade, protrade, neutral, antitrade* and *ultra-antitrade*). *Second*, Korea, Singapore, Indonesia and Malaysia are chosen as the case studies. Using an econometric model, we confirm empirically the mixed results about the impact of unbalanced growth upon the countries' dynamic trade specialization. Only in the cases of Indonesia and Malaysia, domestic unbalanced growth has a positive and statistically significant impact on dynamic trade specialization. The world unbalanced economic growth has no significant impact on the selected countries' dynamic trade specialization.

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Figure 1. Equilibriums in Production and Consumption

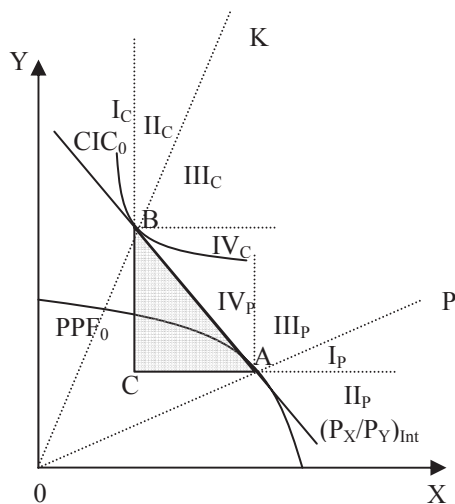


Figure 2. Two Possible Relationships between Economic Growth and Specialization

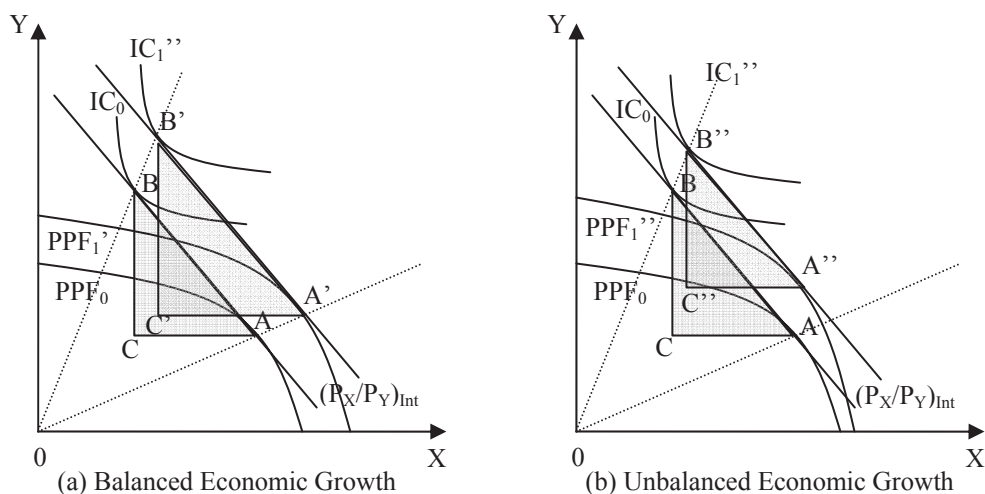


Figure 3. Dynamic Changes in Comparative Advantages

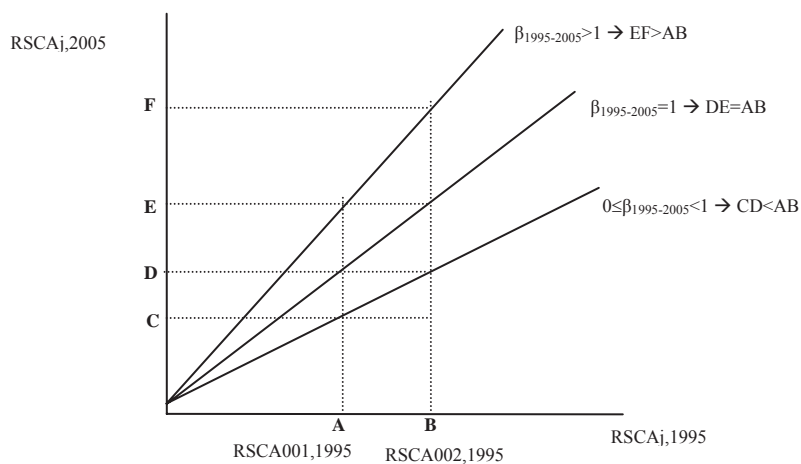
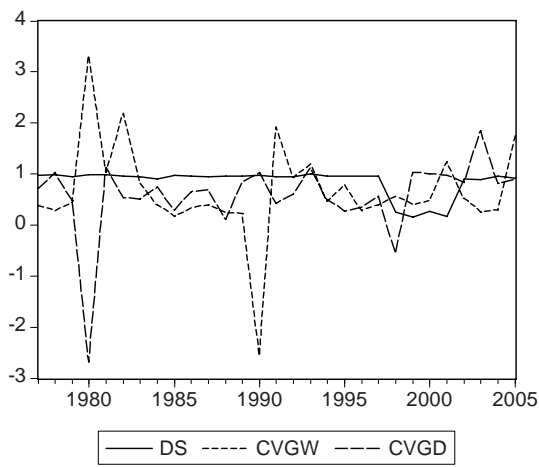
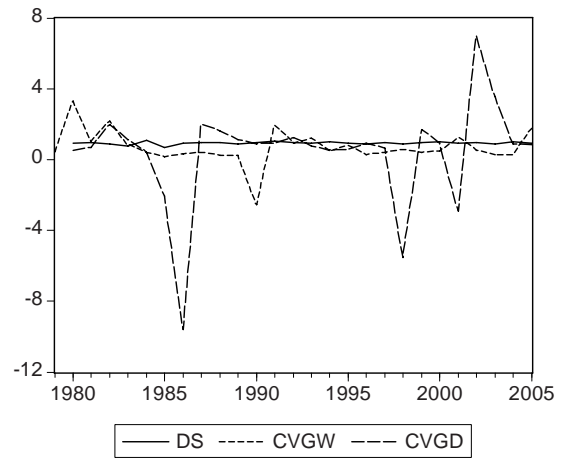


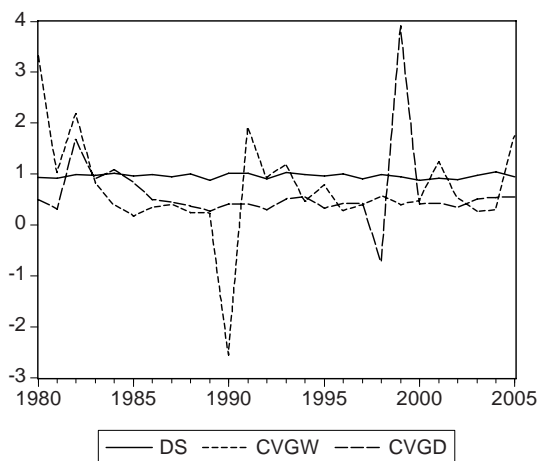
Figure 4. Trends in Dynamic Specialization (DS), World Unbalanced Economic Growth (CVGW) and Domestic Unbalanced Economic Growth (CVGD), 1980-2005



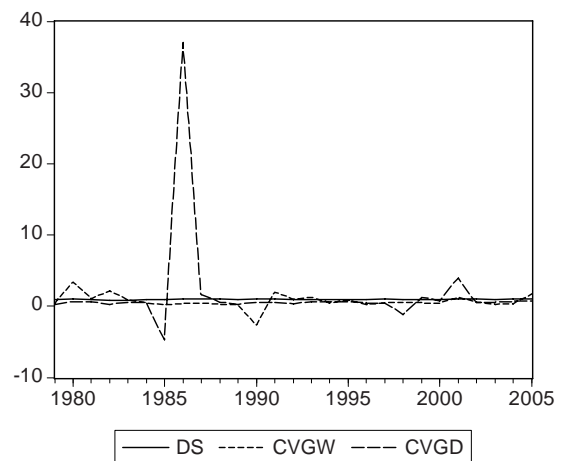
(a) Korea



(b) Singapore



(c) Indonesia



(d) Malaysia

Source: The UN-COMTRADE and UNSD, *author's calculation.*

Table I. Possible Impacts of Economic Growth upon Dynamic Trade Specialization

Country's Factor Endowments		Production Effect																			
		Ultra-protrade				Protrade				Neutral				Antitrade				Ultra-antitrade			
		Ultra-protrade	Protrade	Neutral	Antitrade	Ultra-protrade	Protrade	Neutral	Antitrade	Ultra-protrade	Protrade	Neutral	Antitrade	Ultra-protrade	Protrade	Neutral	Antitrade	Ultra-antitrade	Protrade	Neutral	Antitrade
L-abundant		Consumption Effect																			
		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
K-abundant		Growth																			
		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Balanced		Unbalanced				Balanced				Unbalanced				Balanced							
		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
L-intensive		Unbalanced				Balanced				Unbalanced				Balanced							
		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
K-intensive		Unbalanced				Balanced				Unbalanced				Balanced							
		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Balanced		Unbalanced				Balanced				Unbalanced				Balanced							
		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+

Notes: (+) means more specialized (specialization); (-) means less specialized (de-specialization); (+/-) means uncertain results.

Table II. Estimation Results

Coefficient	Korea	Singapore	Indonesia	Malaysia
Constant	0.852* (0.14)	1.014* (0.048)	0.94* (0.02)	0.976* (0.016)
Unbalanced domestic economic growth (CVDG)	0.0008 (0.046)	-0.07 (0.046)	0.06*** (0.03)	0.002** (0.001)
Unbalanced world economic growth (CVWG)	-0.013 (0.037)	0.002 (0.018)	-0.01 (0.01)	0.001 (0.007)
AR(1)	0.72* (0.14)	-0.113 (0.083)		0.485** (0.203)

Notes: *, ** and *** mean statistically significant at the levels of significance 1%, 5% and 10%, respectively. Figures in parenthesis () represent standard errors.

Source: The UN-COMTRADE and UNSD, *author's calculation*.

Political Economy of Regional Integration: Europe, East/Southeast Asia, Latin America Compared¹

Riza Noer Arfani²

Abstract

Despite resilient trends towards globalized economy, the post-cold war landscape of international political economic relations has been characterized by wide-ranging regional arrangements. The process predominantly aims at easing trans-border management in the frame of liberalizing economic (in terms mainly of trade) relations. The regionalization processes modeled after that of the European one highlight the development of regional integration elsewhere around the globe. East/Southeast Asian and Latin American regional arrangements in particular are among major examples. The establishment of AFTA (ASEAN Free Trade Area) covering 10 (ten) Southeast Asian countries which recurrently to be engaged with their East Asian neighboring partners (the so-called ASEAN+3) and MERCOSUR (Mercado Comun del Sur/the Common Market of the South) consisting of 4 (four) southernmost countries of South American continent is the milestone to further regional economic integration in each respective area.

Keywords: Regional integration, international, political economic relations.

In line with such a context, the paper aims at exploring comparative processes in regional integration of those of Europe, East/Southeast Asia (with specific reference to AFTA) and Latin America (with particular focus on MERCOSUR). Questions addressed include theoretical perspectives, practical or actual development of the (economic) integration stages/processes, and groundwork assessment on the political economic consequences of such a process, both at domestic and international levels.

Conceptually-speaking, two contending approaches on the issue are at stake

here, namely the neo-functionalist and the inter-governmentalist. The three cases explored offer challenging discussion on the two approaches as the Asian/Latin American cases involved a large body of governmental involvement in the process while they have been seen as copycatting the functionalist European model. Practical observation though reveals more dynamic nature of state-societal and state-market relations in each case. Epistemic communities which were deliberately attached during talks on the arrangement have gave clear indication of the dynamics as the communities are principally composed of state bureaucratic apparatus as well as societal and market representatives. Hypothetically, the consequences of such a process would bring about pressures among domestic players (but also between these domestic political economic interest groups and their international counterparts) on how decisions should be made, on whose

¹ The paper was prepared for and presented at the 1st Convention of European Study in Indonesia (Universitas Gadjah Mada (UGM) Yogyakarta, 16-18 March 2009) organized by the Dept. of International Relations UGM.

² Lecturer, senior researcher at the Institute of International Studies, Dept. of International Relations UGM, and Executive Secretary of the Center for World Trade Studies (CWTS) UGM. The author's e-mail: rnarfani@ugm.ac.id.

benefits and costs, and finally how political mechanism eventually negotiate the process.

A. Background

Both as part of contemporary international affairs and of the development of conceptual frameworks in the study of international relations since the end of the Cold War era, regional integration need to be observed as phenomena of policy processes, coordination and regimentation. Political economic comparative approach to the issue offers insights by which regional integration processes further explored. Occurrences in the context of European integration since the 1960s onward pose substantial body of comprehension to the processes. They indicate policy making and formulation processes in seemingly endless efforts to coordinate policies over exchanges of goods, services and people among member countries. They ultimately conclude the process by consenting regimentation on various political economic fields, ranging from trade, investment, immigration, to parliamentary decision making bodies.

Regional integration modeled after that of Europe is basically a prototype of policy coordination regime in economic affairs (international trade, investment, and production) as well as socio-political ones (employment, immigration, and various types of development cooperation) among member countries. Regimentation of policy coordination has been the main feature in regional economic cooperation in the cases of ASEAN AFTA and Latin America MERCOSUR since the early 1990s. Although the two cases have not yet reached a high level of political

coordination, recent trends however show strong tendencies toward deeper negotiations on how the integration processes need to be designed fully in terms of regional political accession. The endeavors of an East Asian Community/EAC (in the case of ASEAN+3) and South American Community of Nations/CSN (in the case of MERCOSUR++) demonstrate a robust willingness of extensive political commitment among leaders in each of respective region.

B. The Issues/Questions

The paper addresses, first of all, how political economic perspective acknowledges and develops theorization and conceptual framework on the subject of regional integration. Secondly, it traces the development of regionalization in European, East/Southeast Asian and Latin American context with specific reference to EU, AFTA/ASEAN+3, and MERCOSUR respectively. Finally, it endeavors to examine its consequences and implications to member countries' domestic and international political arena.

C. Theoretical Perspectives

Political economic explanations on the phenomenon of regional integration are quite diverse. Hurrell identify 3 (three) different clusters of this specific category of study:³ (1) the systemic theories, which emphasize the importance of the broader political and economic structures within which regionalist schemes are embedded, (2) the interdependent theories, which consist of neo-functionalism and neo-liberal institutionalism, and (3) the

³ Hurrell "Regionalism in Theoretical Perspectives" in Fawcett and Hurrell (1995).

domestic-level theories, which highlight interest-group politics and societal pressures over foreign economic policy.⁴ The paper considers this three-level categorization as essential foundation in order to comprehensively comprehend the dynamics of regional integration processes.

Early theorization and conceptualization of regional integration processes (that is empirically referred to European experience) could be traced back to the works of Ernst B. Haas⁵ and Bela Balassa.⁶ Haas portrayed the early unification processes of western European countries and their efforts prior to the establishment of ECSC (European Coal and Steel Community). He maintained that regional integration in the case of ECSC onward is a process, not a status, nor a normative belief. The process he believed as rested on perceptions of the interests of groups, individuals, governments involved in the effort. He therefore focused his analysis on the actors, their motives, ideologies and conduct by which steps towards integration are adopted.

⁴ The 3rd cluster underlines the distributive consequences of economic policies for domestic groups. Those groups suffering losses due to a particular policy or change in policy will oppose it, while those benefiting from the policy will support it. Various domestic groups thus will demand different policies. A government's policy choices often will reflect the underlying preferences of the strongest and best-organized interests within society. See also Mansfield & Milner (1997) for the discussion on this level of analysis, pp. 12-14 and Chapter 2 (by Stephan Haggard) "Regionalism in Asia and the Americas."

⁵ The most frequent cited work on this particular topic is Haas (1958) *The Uniting of Europe: Political, Social and Economic Forces (1950-57)* (Stanford: Stanford Univ. Press)

⁶ Balassa's efforts to theorize the phenomenon were compiled in his work: Balassa (1961) *Theory of Economic Integration* (Homewood, IL: RD Irwin)

Balassa's work is complementary to Haas in the sense that it is the economic integration that further fostered growth of the economies involved. Various dynamic factors contributing to the growth include large-scale economies for wider market, lessening uncertainty in intra-area trade, and faster rate of technological change. In the case of industrialized countries, like the European ones, Balassa maintains that economic integration would serve to avoid discrimination caused by trade-and-payments restrictions and increased state intervention, and it is designed to mitigate cyclical fluctuations and to increase the growth of national income.⁷ As for underdeveloped nations, he believes that considerations of economic development are of key importance in initiating and creating economic integration.⁸

Those initial arguments by Haas and Balassa then sparked the long-standing debate on the issues between the neo-functional theories (which are typically in line with Haas and Balassa) versus the inter-governmentalist theories (which offer counter-explanation to the phenomenon with Stanley Hoffman as the major figure).

Despite referred mainly to the works of Haas and Balassa, neo-functionalism is a novel synthesis of David Mitrany's theory of functionalism and Jean Monnet's pragmatic strategy of European integration. Mitrany's offer the view that international integration, i.e. the collective governance and 'material interdependence' between states, develops its own internal dynamic as states integrate in limited functional,

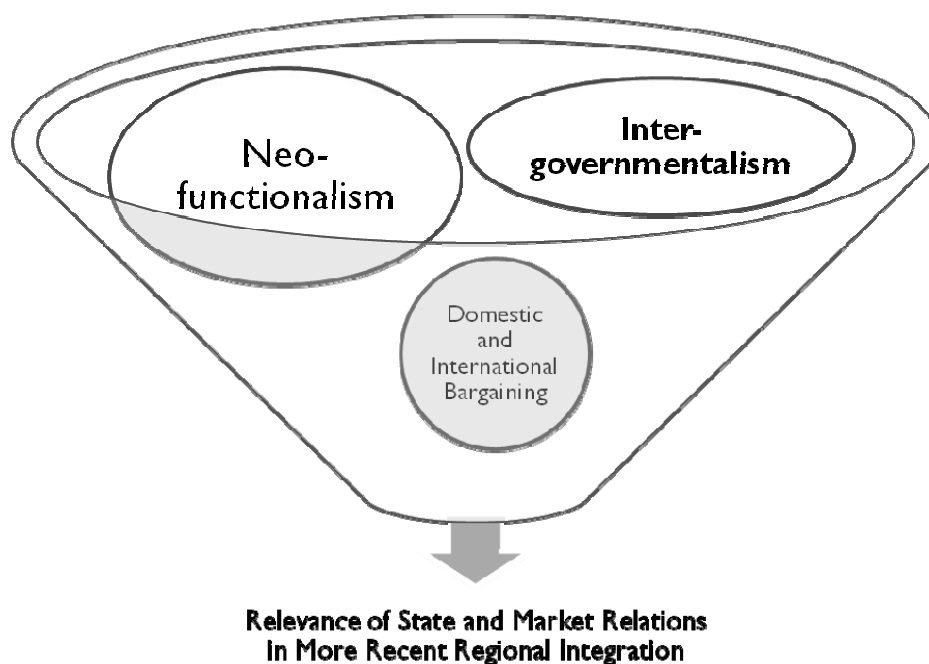
⁷ Balassa (1961) p.6

⁸ *Ibid.*

technical, and/or economic areas.⁹ Jean Monnet’s works (as the Secretary General of ECSC among others) meanwhile contribute to the establishment and actual operation of the modest association of ECSC. The neo-functionalism therefore considers that spill-over effects of functional activities among member states (begun in the ECSC era onward) would eventually generate integration of various economic and political activities. It however recognizes the importance of national states in the foundation of regional organizations. It furthermore emphasizes the roles of non-state actors: interest associations, social movement, and secretariat of the organization. Charles de Gaulle’s *real-politik* backlash against integration during the 1960s marked the self-demise of neo-functionalism (as asserted by Haas itself). However, it was reborn following the 1980s easy agreement on scores of European integration treaties that finally lead to the full integration of Europe under EU-scheme.

Arguing against the spill-over effects explanation of neo-functionalism, inter-governmentalist theories –under their major figure of Stanley Hoffman— developed the approach in the mid of 1960s. Building on realist premises, it rejects the idea of neo-functionalism of loosely-designed and developed integration. Rather, it proposes the idea that integration is a convergence of national interests. Roles of domestic interests are significant in helping define national state preferences in the regional associations. National governments therefore control the level and speed of integration. According to these theories, the focus of regionalization is more on its major sets of inter-state bargains (especially inter-governmental conferences) and on the decision-making of the Councils of Ministers, rather than on the roles of the Commission, European Parliament, or societal actors.

D. An Alternative Approach?



⁹ David Mitrany (1943/1966) *A Working Peace System* (London/Chicago: RII/Quadrangle Books)

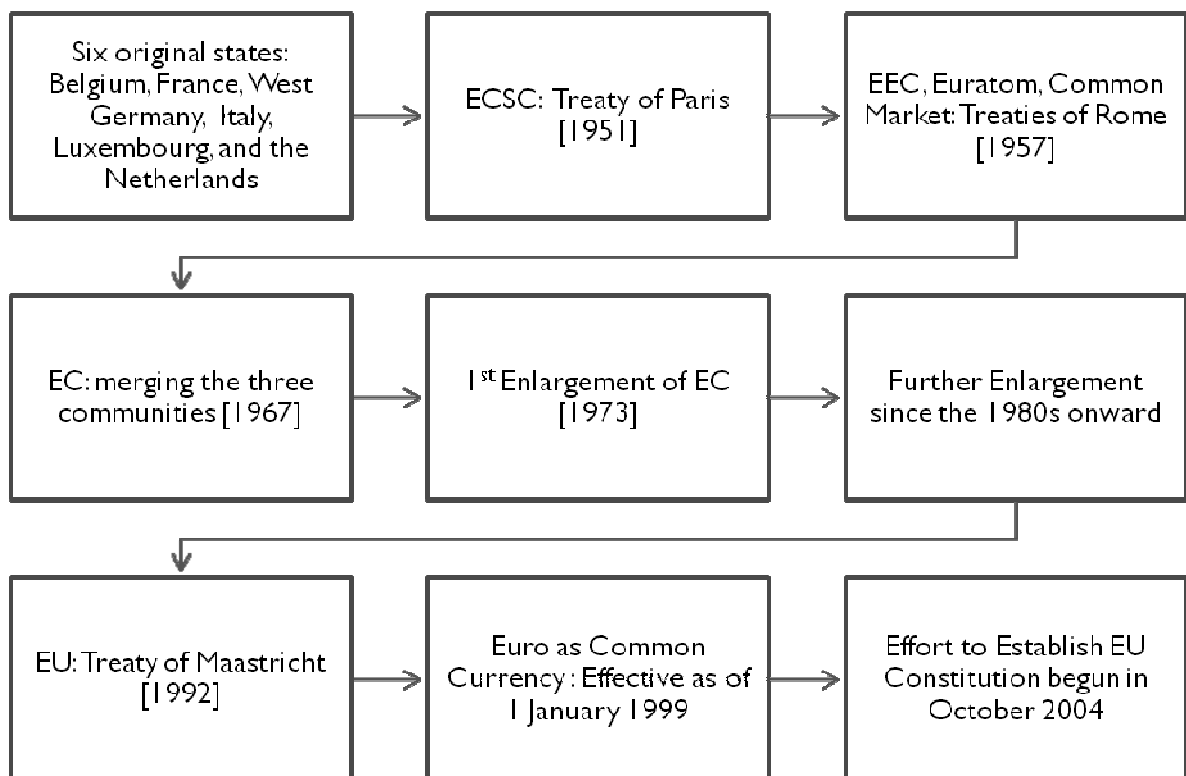
E. Hypothetical Statement

Alternative approach to recent phenomenon of regional integration elsewhere is needed here, i.e. to capture how transformation of ASEAN, AFTA, ASEAN+3 and finally EAC took place in the context of East/Southeast Asian regional integration efforts, and how MERCOSUR with its CMC body would eventually lead to association with other similar groupings in the area under the so-called CSN scheme. On these particular cases of East/Southeast Asian and Latin America, the nature of regionalization is neither fully functional nor fully inter-governmental. Rather, they have been deeply influenced by market and governmental forces designed mainly in the milieu of trade and economic liberalization.

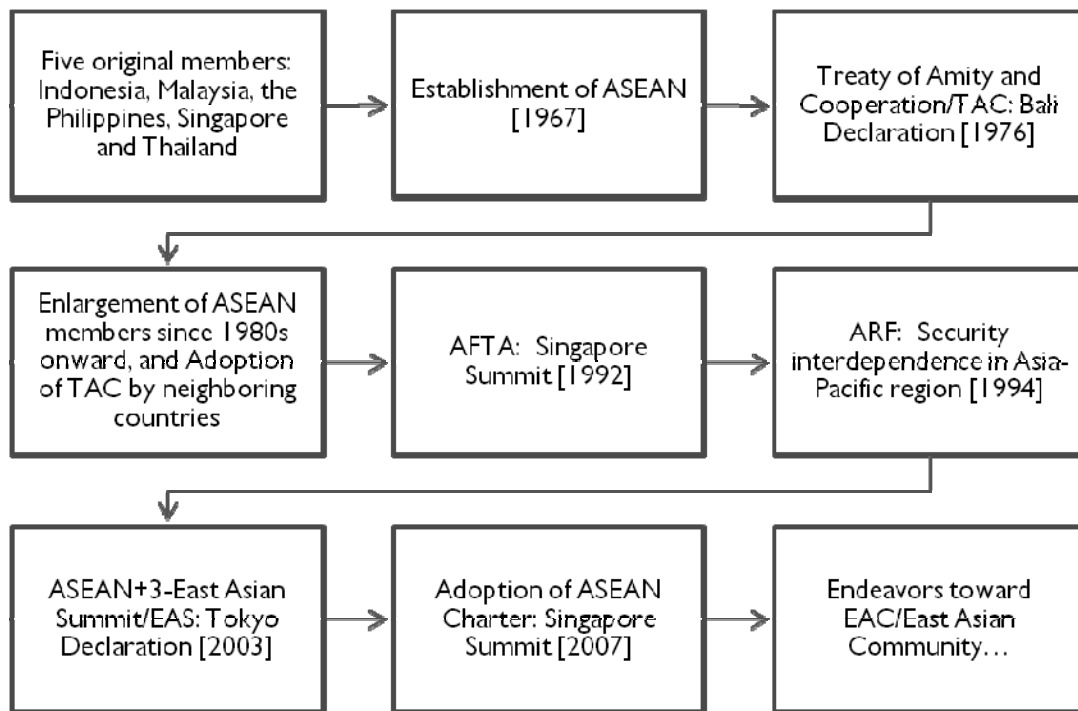
It is therefore crucial to apprehend nature of these forces relations –both at domestic and international levels— in acquiring any regional scheme negotiation, talks, and agreement. Hypothetical arguments to be developed here are that:

- 1) The nature of state-market relations on the case of ASEAN/EAC is likely to be more state-driven amidst its fast nature of integration processes; and
- 2) The nature of state-market relations on the case of MERCOSUR/CSN tends to be dominated by non-state and capitalist forces amidst its slow process of integration.

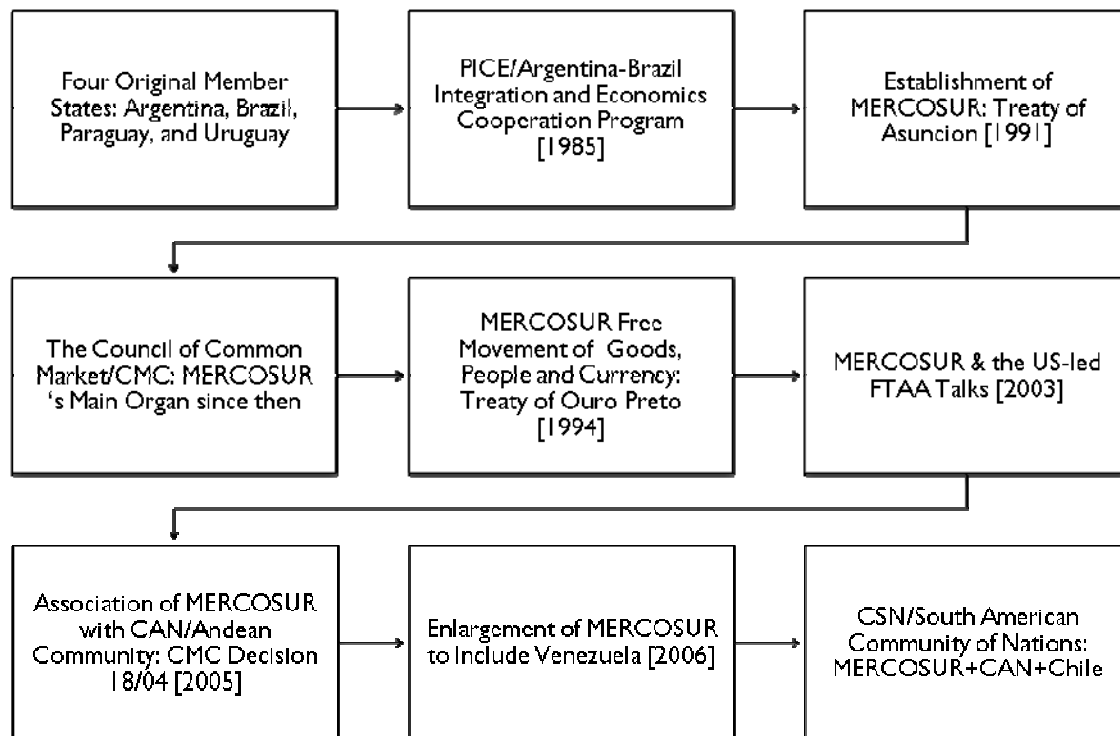
F. The Prototype: Europe



The #1 Hybrid: ASEAN+3/EAC



The #2 Hybrid: MERCOSUR++/CSN



G. Preliminary Assessment

Two breeds of analysis are proposed here. First is the type derived from the empirical encounters of that of East/Southeast Asian regionalism, and we shall call it as “State-Driven Regionalism.” Second is the Latin American sort of encounters when dealing with regionalism, and we shall call it as “Capitalist-Driven Regionalism.”

1. State-Driven Regionalism

The East/Southeast Asian case reflects an intense and constant involvement of state and governmental apparatus in pacting the regionalization arrangement. The early historical outlook of ASEAN formation is highly politicized. It is appropriately explained in terms of the Cold War era marking the ASEAN national governments commitment to ‘neutrality’, the term that is only nicely applied to the fields of diplomacy, but not to military, economy and political ones. Militarily-speaking, all of the five ASEAN founding countries are heavily depended and relied on the US/Western powers since their successes in crushing Communist and other socialist forces domestically in the late 1960s onward. ASEAN economy was since then designed as parallel to the interests of the US/Western governments and businesses. Politically, there is no room to maneuver for ASEAN governments beyond the US/Western model of developmental political regime –be it authoritarian, soft-authoritarian, semi-democratic, or democratic. Their East Asian counterparts –especially Japan and Korea, but also later China— shared similar historical backgrounds.

Accordingly, ASEAN arrangement

and its ensuing development in the fields of economy, politics and military is deeply influenced by intentions to keep on tracks of neutrality, economic development needs, political and military amity among neighbors (under the hegemonic power of the US), and non-interference conception on any domestic affairs. The intention would then have been manifested in the notion and practice of Treaty of Amity and Cooperation (TAC). The TAC paved the foundation of the so-called “ASEAN Way” as a principle in solving disputes among member countries. This has ultimately been the major landmark in the enlargement of ASEAN. The membership of Brunei Darussalam in the mid 1980s constructed the ASEAN-6 which then completed with the memberships of four additional Southeast Asian countries (Cambodia, Laos, Myanmar and Vietnam) in the 1990s to form the ASEAN-10. Inter-regional dialogues between ASEAN and its partners open the way to broader regional arrangement to include the ASEAN+3 (China, Japan and Korea) which is then peaked in the idea of EAC (East Asian Community).

ASEAN institutionalization processes demonstrate almost completely how the state and its governmental apparatus have taken substantial roles in decision-making that will eventually lead to regionalization processes. The most recent proposal of the ASEAN Community (which is idealistically designed as consisting of three main pillars of economic (AEC), socio-cultural (ASCC), and security (ASC) affairs) confirms the position of state as dominant and leading actor in realizing the idea of regionalism via ASEAN Community. The signing and adoption of ASEAN Charter highlights the final phase of institutionalization process

of ASEAN. Burdens and challenges ahead are apparent however. They –resulted for the most part from this type of state-driven regionalism— include questions on the basic principle of non-interference (as ASEAN shall confront with issues in human rights, liberal democratic practices, trafficking in persons, drugs, etc., environmental issues), on the application of economic regionalization processes under AFTA and other bilateral FTA schemes, and on the regional identity (i.e. whether they have the ability and capability to define themselves as East/Southeast Asianers).

2. Capitalist-Driven Regionalism

The Latin American case reproduces deep and continuous influence and operation of Western capitalist market in the area. The historical standpoint to the continent's regionalization efforts illustrates the basic tenet of capitalist-induced processes. At its early stages of regionalization processes of MERCOSUR, all of the four founding members are in the middle of economic liberalization route –guided by and as a part of the IMF structural adjustment programs. Despite the apparent roles of governmental agencies in conducting the program and paving the way to regionalist liberalization scheme, forces of non-state actors are dominant in decisions leading to various regional agreements. In another case of regionalization which directly involved the US and Canada, NAFTA, involvement of business interests in the ensuing processes are evident as they demand liftings of regulations blocking free movement of capital and other modes of production in bordering areas of Maquiladora.

The arrangement of MERCOSUR furthermore is a response to the NAFTA and other capitalist-regionalization efforts in two meaningful senses. First is in the context of counter possibilities of protectionist measures. And second is in the framework to capture under-absorbed and spill-over capitals and investment ready to pour to the area. Organizational structure of MERCOSUR which puts trade (and other economic) negotiations under the establishment of CMC as its main focus demonstrate emphasize more on economic affairs than on conventional political ones. It reflects the idea of having more liberalized borders in terms of goods, services, people exchanges. It reversely discards the idea of having agreements on diplomatic wrangles as for example demonstrated in the case of whether MERCOSUR should be incorporated to and be part of Bolivarian-type regionalization scheme currently under aspired by Venezuelan's President Hugo Chavez.

Challenges ahead for this specific type of capitalist-driven regionalism could be resulted from unequal exchanges among member countries and international players involved. This could lead to traditional political cleavages and struggles –between factions in favor of more liberal type of policies and factions in favor of more nationalist, independent, populist political agenda— which have been key characteristic of domestic Latin American politics. Democratic regimentation and transitional era to democracy however is the main arena of those kinds of political contestation nowadays, even in countries like Venezuela and Bolivia where socialist-type democracy spurred massively. Countries of MERCOSUR all have been experiencing the contestation during

the last two decades with quite an ease, signaling positive and more optimistic assessment of how the political system could coop with such a situation. Brazil and Argentina have particularly been dealing with those traditional political struggles with a result of productive discussion of how domestic economic policies could respond creatively to international pressures.

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The Impact of CAFTA Agreement on Trade, Challenge and Opportunities

Masyhuri¹

Abstract

Main CAFTA (China ASEAN Free Trade area) has been started on 1 January 2010. The full CAFTA will be realized in 2015. It has political and economical motives. The free trade area is the world largest in term of population and the third largest in term of GDP (Gross Domestic Product). This paper discusses the theoretical and possible impact of CAFTA on trade particularly in Indonesia. Some products will be exported and imported more. This will increase production of some products and decrease production of some other products. The final benefit results will be depended on the readiness of the country. Therefore there are suggestions to dig more benefit and to prevent losses. The promotion of some product, the protection of domestic production and increase the competitiveness of the country should be done.

A. Introduction

Association of South East Asian Nations (ASEAN)- China Free Trade Agreement is signed on November 6th, 2001. On that day, both parties at the annual summit agreed to undertake an unprecedented initiative aimed at establishing a bilateral free trade area in 2010. In short the free trade area is called ACFTA (ASEAN China Free Trade Area) or CAFTA (China ASEAN free Trade Area). Starting on January 1th, 2010 CAFTA has been realized especially for ASEAN-6 (Indonesia, Singapore, Thailand, Malaysia, Brunei Darussalam and Philippines). The other new members called CMLV (Cambodia, Myanmar, Laos and Vietnam) will be realized in 2015. The free trade area created by this initiative will have 1.7 billion customers and a combined gross domestic product (GDP) of approximately

US\$6 trillion in 2008. The free trade area becomes the world largest in term of population and third largest in the world in term of GDP after EU (European Union) and NAFTA (North America Free Trade Area) (Bello, 2010).

China's motivations in offering ACFTA are both political and economic. Politically, China wishes to remain on friendly terms with its neighbors on its southern front. ACFTA is part of confidence building that includes China's participation in the ASEAN Regional Forum and China's accession to the ASEAN Treaty of Amity. ACFTA is to allay ASEAN concerns that China poses a threat with its economic ascendancy by providing preferential access to its rapidly growing domestic market. China is also eyeing the ASEAN region for its various natural resources, especially oil and its market of 560 million consumers. Closer economic relations with ASEAN will enable China to build its geopolitical clout in Southeast Asia and counterbalance the influences of Japan and US. The swift progress of ACFTA

¹ Professor of Agricultural Economics and currently as Director of the Center for World Trade Studies, Universitas Gadjah Mada Yogyakarta Indonesia

has hastened Japan as well as the US, South Korea and India to propose economic cooperation arrangements with ASEAN as well ASEAN governments welcomed the China initiative for a number of reasons. First, China is a huge and dynamic economy and its growing demand for ASEAN goods and services could serve as a new engine of growth. Chinese tourists are already a key factor in the growth of tourism in the region. ASEAN also looks to more Chinese investments as well. China's WTO entry will also mean a trading partnership based on international rules and discipline. Closer ASEAN-China economic ties will also enable ASEAN to reduce dependence on the US, EU and Japan. Second, China's offer of special treatment and development assistance for the CLMV group as well as the extension of WTO most-favoured-nation benefits to the non-WTO members of ASEAN have helped them to accept the China initiative more readily. Third, China and ASEAN will be able to go further than the WTO in liberalizing agricultural

trade, as China's temperate agriculture and ASEAN's tropical agriculture are complementary in many product areas. Thailand, in particular, looks to accelerating agricultural exports to China. Nonetheless there are continuing concerns over the impact of preferential opening of ASEAN markets, as many ASEAN labour intensive manufactures will not be able to compete with China on price.²

Interesting to know what are the impacts of the latest agreement especially on trade in Indonesia. This paper is to explore the possible impacts on trade, challenges and opportunities.

B. Conceptual framework

It is common that international trade has barrier either tariff barriers or non-tariff barriers to trade. The free trade agreements basically want to change gradually from protected international trade to free trade by decreasing the barrier. Theoretically this change can be described by graph as follow.

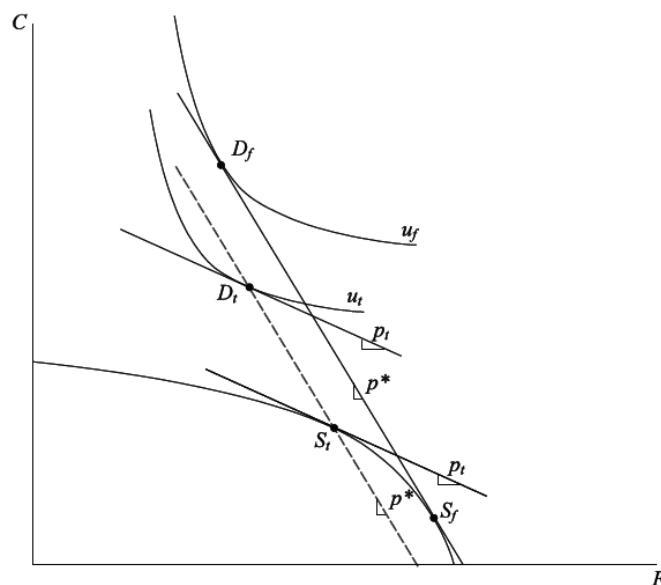


Figure: Graph of the impact of trade liberalization on trade, production and consumption.

² Yue, Chia Siow, "ASEAN-China Free Trade Area," in Paper for presentation at the AEP Conference, (Hong Kong: 2004).

It is assumed that here are two goods, F (food) and C (cloth). P^* is the price ratio under world price, p_t is price ratio under domestic price with tariff (barrier to trade). Under world price, the country stay at product possibility curve (ppc) at S_p , which the price ratio line tangent to the ppc at S_f . under tariff regime, the price ratio (p_t) tangent to ppc at S_t . under CAFTA agreement assumed the price ratio is p_f and before CAFTA assumed the price ratio is p_t . After CAFTA, the country produces F more and less C.

Under the CAFTA the country consume at D_p , where indifferent curve u_f tangent to price ratio line p^* . under tariff regime (before CAFTA), the consumption is at D_t , where the indifferent curve u_t tangent to price ratio line p_t . the total consumption of product after CAFTA (F +C) is greater than it before CAFTA, as a result the welfare is greater ($u_f > u_t$)

After CAFTA, The country export F more and import C more, as a result the trade increase. But the domestic production of F increase and the production of C decrease. This consequences must be understood when decide the CAFTA agreement.

So there are two kind of goods, exported goods and imported ones. Generally, exported goods will be exported more and imported goods will be imported more. The increase exported goods will increase domestic production. The increase imported goods with compete with goods produced domestically so called import substitution goods. These products will decrease. The total production will increase and the total consumption will increase. The trade between ASEAN and China will increase. These will promote economic growth and welfare in the two parties, ASEAN and China countries.

Although they can have advantageous, but there are problems or disadvantageous. For the whole ASEAN, how much the advantageous and disadvantageous are, can the advantageous exceed the disadvantageous? The problem of each ASEAN countries like Indonesia is that can we (Indonesia) can compete with other ASEAN countries to take the opportunity of increase in trade. The other problem is that the domestic import substitution goods producers will suffer. This change will influence domestic economy

The further discussion, the benefit and problems of the CAFTA agreement on ASEAN countries are not mentioned. It is concentrated on those related in Indonesia side.

C. Trade between Indonesia and China

The trade between Indonesia and China has been increasing. The trade increased from 2004 to 2008, but then declined in 2009 due to global financial crisis. That is true for both export and import. In the earlier year Indonesia earned trade surplus, where the value of exported goods exceeded the imported value. It can be seen on the table that from 2004- 2007 Indonesia enjoyed trade balance surplus, while in the succeeded years, 2008 and 2009 Indonesia had deficit. It can be seen that for non-migas (non oil goods) it worse. It was only in 2004 the trade balance was surplus, while in the succeeded years, 2005-2008 they suffer deficit trade balance. For further details, see table 1 bellow. The rate of increase in export (24.95%) was lower than that in import (35.09%).

Table 1. Trade Balance INDONESIA- RRC years 2004-2009 (thousand US \$)

Item	2004	2005	2006	2007	2008	TREND (%)		Jan-Dec		CHANGE (%) 2009/ 2008
						2004-2008	2008	2009		
TOTAL TRADE	8.706.064,2	12.505.216,3	14.980.466,4	18.233.389,8	26.883.672,6	30,11	26.883.672,6	25.501.497,8	-5,14	
Oil & Gas	1.910.341,8	3.994.183,4	4.011.873,8	3.612.035,6	4.148.600,9	15,61	4.148.600,9	3.090.052,24	-25,52	
Non Oil & Gas	6.795.722,4	8.511.032,9	10.968.592,6	14.621.354,3	22.735.071,7	34,40	22.735.071,7	22.411.445,5	-1,42	
EXPORT	4.604.733,1	6.662.353,8	8.343.571,3	9.675.512,7	11.636.503,7	24,95	11.636.503,7	11.499.327,3	-1,18	
Oil & Gas	1.167.306,4	2.702.591,2	2.876.961,3	3.011.412,8	3.849.335,3	28,33	3.849.335,3	2.579.242,8	-33,00	
Non Oil & Gas	3.437.426,7	3.959.762,6	5.466.610,0	6.664.099,9	7.787.168,4	24,06	7.787.168,4	8.920.084,4	14,55	
IMPORT	4.101.331,1	5.842.862,5	6.636.895,1	8.557.877,1	15.247.168,9	35,09	15.247.168,9	14.002.170,5	-8,17	
Oil & Gas	743.035,4	1.291.592,2	1.134.912,5	600.622,7	299.265,6	-22,78	299.265,6	510.809,4	70,69	
Non Oil & Gas	3.358.295,7	4.551.270,3	5.501.982,6	7.957.254,4	14.947.903,3	42,55	14.947.903,3	13.491.361,1	-9,74	
TRADE BALANCE	503.402,0	819.491,3	1.706.676,2	1.117.635,6	-3.610.665,2	0,00	-3.610.665,2	-2.502.843,2	-30,68	
Oil & Gas	424.271,1	1.410.998,9	1.742.048,8	2.410.790,1	3.550.069,7	61,35	3.550.069,7	2.068.433,4	-41,74	
Non Oil & Gas	79.130,9	-591.507,7	-35.372,5	-1.293.154,5	-7.160.734,9	0,00	-7.160.734,9	-4.571.276,6	-36,16	

Source: Badan Pusat Statistik (processed by Pusdata Ministry of Trade)

This table indicates that the domestic productions are not competitive and the competitiveness has been declining. It is understood that this happened. The Republic of China takes very seriously when it entered to be a member of WTO (World Trade Organization) in 2001. It prepared to provide better infrastructure and business environment, such as technology, finance, energy, industry zoning, etc. to make any industries become more competitive. This was followed by entering the CAFTA, China was well prepared and ready for competition with ASEAN countries, while Indonesia did not prepare seriously. People said that Indonesia thought business as usual. Whether or not joining the CAFTA and WTO business as usual, there were no special efforts to enhance the competitiveness of the industry.

There is another explanation,

why the trade balance declined. It was because there were illegal imports. But this is not to change the conclusion that the competitiveness declined, since the CAFTA means minimum (0-5%) tariff or liberalization. In that situation, illegal import is not relevant anymore. If Indonesia does not take care of this development, Indonesia might not be able to compete with China and other ASEAN countries. Therefore special efforts must be given to increase the competitiveness of the industries.

In the future, export to and import from China will increase. Export of oil will increase higher than non-oil export. Import of non-oil will increase higher than those of oil import. Domestic ally non-oil import substitution production will suffer more compared the oil products.

1. Exported goods

Exported goods that have been exported to China before 2010 will have opportunities to enjoy acceleration as long as they can maintain the competitiveness with similar products from China and other ASEAN countries. It is better if they can enhance the competitive advantage so the export increase will be faster. Those exported goods can be seen in the table below.

It can be seen from the table 2 above, that HS 15, HS 40, HS 47 and HS 26 are the biggest 4 export goods. Their trends were increasing significantly. It is expected

2. Potential Export to China

The potential exported goods to china are the existing exported goods especially those have high value. As mentioned in the table palm oil (and its derivative products) and rubber products are among main exported products. Other exported goods which had small value can be developed if the supply is big enough, like sweet snake fruit (salak pondoh). Other potential products are exported products which were exported products to other countries. The main exported products such as HS 15, HS 27, HS 85, HS 40, HS 84, HS 26, HS48, HS62, HS87, HS44,

Table 2. The value of export from Indonesia to China (million US\$), 2004-2008

No	HS	2004	2005	2006	2007	2008
1	15	588,3	673,1	1043,2	1.520,6	2.119,1
2	40	252,1	340,9	689,4	762,1	901,2
3	47	262,8	380,5	553,0	510,9	742,3
4	26	67,1	165,1	304,1	613,1	649,2
5	29	564,2	569,8	557,2	549,9	335,1
6	74	117,4	229,5	352,7	330,2	315,5
7	85	190,9	145,7	180,9	217,9	279,1
8	84	126,7	154,2	202,8	276,6	255,7
9	48	200,0	173,7	200,4	194,9	195,1
10	44	332,7	279,2	254,1	194,7	157,9

Source: Processed from Central Agency for Statistic (2009)

that after CAFTA those commodities are promising. Among big ten export goods, there were two goods decreasing, they were HS 29 and HS 44

The more details but rough commodities are provided by China Attaché for trade (2009) as follows.

HS61, HS74, HS39, HS94 can be directed to China.³

³ Masyhuri, "Dampak CAFTA Terhadap Perdagangan, Implikasinya Terhadap Ketenagaan Kerja di Indonesia" in Papers at the Interactive Discussion at the Ministry of Employment and Transmigration, (Jakarta: Indonesia, 2010)

Table 3: Exported products to China in 4 digits of HS.

HS	Product	2006	2007	2008
1511	Palm oil & its fractions, etc	713,23	996,76	1439,93
4001	Natural rubber etc	680,37	650,81	751,88
4703	Chemical wood pulp etc		623,05	621,92
2601	Iron ores etc		285,96	540,59
8542	Electronic int. circuits etc		297,78	237,54
8529	Parts for TV, radio etc		172,52	135,42
2905	Acyclic alcohol etc		134,97	127,37
8541	Semiconductor devices			83,52
8471	Atom data proc machines etc		516,25	364,04
2902	Cyclic hydrocarbon		304,48	147,98
8443	Print mach etc			142,04
HS	Product	2006	2007	
2902	Cyclic hydrocarbon		304,48	
2603	Copper ores & concentrates		200,90	
2917	Poly carboxylic Acid & anhyd etc, halogen, sulfur etc		171,82	
8473	Parts etc for typewriter& other office machines		79,56	
8708	Parts & access for motor vehicle, head		64,23	

Source: Attaché Trade in China (2009).

3. *Imported goods*

Goods that have been imported from China before the CAFTA was realized have potentially to increase further. Those imported products can compete with the similar products that produced domestically. This new direction makes the production will decrease and some production may decrease to zero or bankrupt. If this is happened, unemployment will raise. These products can be seen in the table below.

It can be seen that the imports for all of big ten import goods (HS 84, HS 85, HS 72, HS 73, HS 29, HS 28, HS 39, HS 31, HS 52, HS 08) were increasing. It indicates that exporting industries in China perform well.

The further but rough details in 4 digit HS can be seen table 5 below.

4. *Potential imported products from China*

The above products have potential increase in import. Besides, imported goods

in small number but has potential to increase. They are batik, cloths and other textile products. Further more, there are products which were imported goods from other than China, but have potential to be imported from China. They are HS84, HS85, HS72, HS87, HS29, HS39, HS73, HS31, HS10, HS 88.⁴

5. *Direct competition*

There are other products which were exported to China in great amount but also imported from China in great amount either. The example of the products are HS 8443, HS 8529. Further direction can be influenced by the competitive advantage of each country.

D. *What should be done?*

To meet the opportunity and cope the challenge and problems, the government should have protection and promotion strategies, and to increase the competitiveness of the industry in the country

Table 4. The Value of import goods from China, 2004-2008 (million US\$)

No	HS	2004	2005	2006	2007	2008
1	84	549,6	903,7	1.002,3	1.503,8	3.394,2
2	85	425,6	518,0	619,9	1255,0	3281,0
3	72	340,8	573,9	559,2	858,2	1026,2
4	73	85,6	284,3	229,1	366,3	872,9
5	29	182,4	218,6	266,2	371,6	511,5
6	28	154,7	221,8	222,6	269,8	466,6
7	39	89,0	100,8	134,9	182,5	335,2
8	31	58,3	80,8	114,9	106,5	323,2
9	52	72,2	76,0	84,5	86,4	299,6
10	08	85,2	98,9	161,4	225,4	248,0

Source: Processed from Central Agency for Statistic (2009).

⁴ *Ibid.*

Table 5: imported products from China.

HS	Product	2006	2007
8517	Electric. app. for line telephone etc	94,58	669,63
8443	Print mach etc		174,64
7208	Flat-rolled product of iron etc		153,01
9013	Liquid crystal devices etc		145,79
8708	Parts and access of motor vehicle etc		112,69
8544	Insulated wire etc		111,11
8481	Tape, cocks, valves for pipes etc		109,64
5407	Woven fabric etc	112,83	108,97
8473	Parts, etc for typewriter etc		95,06
8529	Parts for tv, radio etc		82,57
8521	Video recording etc		53,66

Source: Attaché of Trade in China (2009).

1. Protection strategy

The government should protect domestic production from China products for many ways. Legal non-tariff barriers should be applied such as halal certification, free from diseases, etc. Tariff still can be applied for special products (SP) because of strategic and labor intensive industries. It should be identified of those products, Safeguard Safety Mechanism (SSM) can be applied in case there are flood of import. If China implements illegal subsidy and dumping, the government must implement anti dumping and anti subsidy rules.

2. Promotion strategy

Subsidy must be given to strategic products, like green box and amber box of WTO. Infrastructure must be given as China government give such as irrigation, road, land conservation, modernization of market, good environment, etc. Export must be promoted.

To increase the competitiveness of the country, the government should implement the policy to enhance quality of human resource, modernization of machine and equipment, higher technology, strengthening institution, good

coordinating among economic sectors, financing, and well macro economic policy.

a. Human resource development

The majority of domestic businesses are small scale business run by low quality of human resource. To make better business there should be a training, empowerment and in-house training. Most of the product are not certified, therefore the government should give nationwide certification program.

b. Financial access

Most small scale businesses have limited access to financial source therefore there should be an effort to provide this access. The problem is that most banks need collateral to releasing the credit and most small scale businesses have limited collateral. The government should provide special financial institution to provide this access. There are many choices. Among others are venture modal model, small scale financial institution like in Bangladesh, cooperative, etc. Government have many program such as P4K (poverty alleviation program), LUEP (local government program), Dana Bergulir (circulated fund), KUR (credit for people), LKM (micro finance), but the success rate are still very low⁵.

c. Institutional strength

Business institution for small scale ones is still weak therefore it must be strengthened. Farmers group, business group, cooperatives are

weak and not permanent. There is a challenge to build strength such association.

d. Coordination among economic sectors

Institution in economic sector is still desperate. Since the local autonomous program lunched, the coordination between central government and local government were still under questioned. This situation led to high cost economy. There should be a good coordination between central and local government and among different sectors in the country.

e. Marketing system

Marketing system has not been efficient yet. This is because of lack of well infrastructure, asymmetric market information, imperfectness of market structure. Therefore an effort must be given for cope this problem.

f. Higher Technology adoption

In order to have high quality of product, technology must be updated to meet the requirement to consumers preference and international standard such as SPS, HACCP etc. this need a special effort especially for small scale business units.

g. Macroeconomic environment

Macroeconomic policy must be well managed to have competitive industry in the country. Macroeconomic policy includes fiscal and monetary policies. Fiscal policy include provide enough fund for better infrastructure, appropriate taxes (central and local taxes), while monetary policy include

⁵ Kompas September 11th, 2009

maintaining fair foreign exchange rate, and low interest rate.

E. Conclusion

CAFTA has been realized since 1 January 2010. Theoretically, it can improve economic growth and welfare in general. However there are potential to reduce some industries. There are opportunity and challenge. To optimize the free trade agreement, government should have policy to protect, promote and make the industries are more competitive otherwise the economy will suffer.

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Kompas September 11th, 2009

Asean Economic Community 2015: Player or Spectator?

Mudrajad Kuncoro¹

Abstract

Basically the blue print of AEC is to build Asean Economic Community as an integrated area for the distribution of goods, services, investment, capital, and skillful work force. 2008 is the year to start establishing the area in that 2015 is expected to be the time for the implementation. It can be said that AEC is nonetheless AFTA plus.

This article analyzes the methods and steps in realizing AEC. The question is, are we ready? Will we be the player or the spectator in AEC 2015? Perhaps the myth of united ASEAN will vanish should AEC be really established. However, there must be some barriers in the ways of establishing AEC 2015. This article identifies the obstacles in both Indonesia and in ASEAN. There is a big gap among the ten members of ASEAN. As the commitment to carry out the programs of AEC heading a competitive economic area, Indonesia has issued two outputs: first, Government Regulation on the Ratification of Protocol to Implement the Third Package of Commitments on Financial Services under the ASEAN Framework Agreement on Services (AFAS). Second, Government Regulation on the Ratification of Protocol to Implement the Fourth Package of Commitments under the ASEAN Framework Agreement on Services (AFAS).

Keywords: ASEAN, AEC 2015, barriers, ratification

The 13th ASEAN Summit held in Singapore on November 20th 2007 made a new history. In its 40th birthday, the leaders of the state members of ASEAN came to an agreement of declaring the blue print of ASEAN Economic Community (AEC). The target says that in 2015 ASEAN will “one country”, where goods, services, investment, work force, and capital will freely flow from one to another country within ASEAN. The emerging question that is interesting to study further is: Are we ready? Will we be a player or a spectator in AEC 2015?

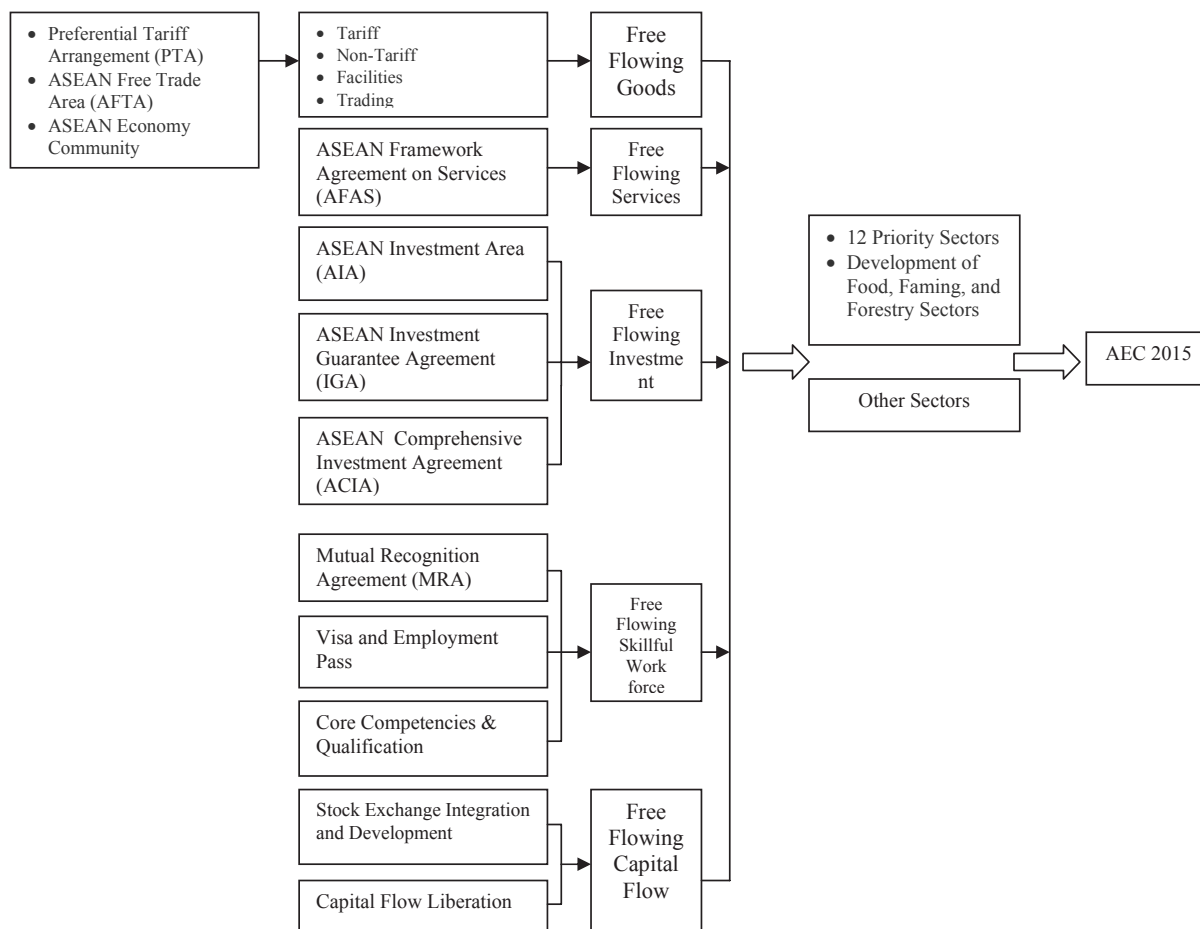
A. Blue Print of AEC 2015

Since ASEAN Summit in Bali in October 2003, the ASEAN leaders have declared AEC as the goal to integrate the regional economy in the big frame of the Vision of ASEAN 2020. In Bali Concord II, besides AEC, two other pillars were declared in the construction of ASEAN Community i.e. ASEAN Security Community and the ASEAN Socio-Cultural Community. Thus, those three pillars are expected to fully function when the ASEAN Economic Community comes to reality in 2020.

This blue print of AEC contains the ambition of building ASEAN as the trading center of an integrated area. It is targeted that the starting point is in 2008 and the implementation will be in 2015. AEC is expected to be equal to European Union

¹ Professor of Faculty of Economic and Business, Universitas Gadjah Mada, Indonesia.

Figure 1. Mechanism to Attain AEC 2015



Source: Djaafara, *et al.* (2008)

(EU)². It is also expected that investors will be attracted to make investment in ASEAN because of its being one of the world's big markets. Unlike EU, AEC still applies different currencies referring to its members. Furthermore, AEC is not a free passport area, and it does not have a central bank.

Technically, the embodiment of AEC 2015 applies the mechanism and initiative already built by ASEAN and strengthened by increasingly strong-bonded institutions

in the frame of ASEAN cooperation. Each institution and initiative involved within the five elements of single market and a production basis can be seen in Figure 1. Concerning the element of the free goods inflow, for example, the initiative of tariff and non-tariff reductions and the trading facilities reaching the free AEC are based on the development and the perfection of the available mechanisms i.e. Preferential Tariff Agreement (PTA), ASEAN Free Trade Area and the blue print of AEC. The same thing happens to other elements within this pillar.

In the document signed by the ASEAN leaders, the blue print of AEC has four main features: (1) single market

² A more detailed study on the development of European Union from European Economic Community, European Single Market, until European Monetary Union can be seen in Kuncoro (2002: chapter 26).

and production basis; (2) competitive economic area; (3) area for an apportioned economic development; (4) an area that is fully integrated with global economy. These four characteristics interconnect and strengthen each other. Box 1 explains further the four main characteristics of AEC.

Box 1. Four Characteristics of AEC

I. Single Market and Production Basis with 5 core elements (see Table below).

Five Core Elements of Single Market and Production Basis

	Liberation	Facilities
Free Goods Inflow	Tariff and Non-Trade Barriers write off, external tariff synchronization	Custom standard integration and technical trade barriers
Free Services Inflow	Full access to the market and removal on all substantial restrictions of services trade	MRA (Mutual Recognition Arrangement) on professional services; professional resources exchange
Free Investment Inflow	Services and industries supply for ASEAN investors	Transparency; slim procedure, double-tax removal; common marketing
Free Capital Inflow	Simplifying the regulations on investment control of intra-ASEAN portfolio	Standard harmony for stock exchange; market strength to create stock exchange bonding
Free Workforce Inflow	Workforce discrimination abolition	Common standard for education and training; MRA for vocation training

Priority Integrity Sector

- conducting study every semester to monitor the status, process, and the effectiveness of the road map of Priority Integrity Sector to ensure the that the implementation is done in time
- identifying project sector specifically or gaining initiative through dialogue or routine consultation with the concerned parties especially private sectors

- 12 priority sectors covering up electronics, e-ASEAN, healthcare, wood based products, fishery, aviation, tourism, and logistic are determined

Food, Farming, and Forestry

- increasing trading and long term competitiveness of ASEAN food, farming, and forestry products
- encouraging cooperation with regional and international organizations, and private sectors

II. Competitive Economic Area

- developing competition policy
- strengthening protection towards consumers
- regional cooperation for intellectual rights
- regional cooperation for infrastructure development
- bilateral agreement on double tax wipe off
- encouraging e-commerce.

III. Just Economic Development

- accelerating the development of Small Medium Enterprises (SME)
- initiating ASEAN to narrow down the development gap

IV. Integration towards Global Economy

- gaining a coherent approach towards external economic relationship, including Free Trade Area (FTA) negotiation and a comprehensive economic partnership
- improving the participation in the global supply network

Source: Hew (2008); ASEAN Secretary (2008); ISEAS (2008)

As a single market and a production basis, AEC means liberation of the flowing goods, services, investment, capital, and skillful work force. It can be said that AEC is AFTA plus. Through ASEAN Free Trade Area (AFTA), many kinds of barriers such as tariffs and non-tariff are either reduced or wiped out. Besides that, the distribution of trading products facilities are conducted through integrating the custom procedures with what is called ASEAN Single Window, developing Common Effective Preferential Tariffs (CEPT) Rules of Origin, including the procedures of operational certification, harmonization of standard, and procedures.

CEPT is a mechanism in order that AFTA might function well. AFTA, through CEPT, is a result of the agreement among the state-members of ASEAN to build a free trade area in the frame of increasing the economical competitiveness of ASEAN regional area by making ASEAN as a world production basis.

Prabowo and Wardoyo state that the criteria of a certain product able to be traded through CEPT program are: (1) the product must be within the inclusion list both in the exporting country and importing one and must have an average range of equal tariff either above or under 20%; (2) the product must have a tariff reduction program approved by AFTA Council; and (3) the product must be the product of ASEAN, meaning that the product must load the ASEAN local content of at least 40%. Furthermore, the product having tariff in the range of 0%-5% will automatically fulfill the requirements of CEPT program.³

The products of CEPT are categorized

³ Prabowo, Diby dan Sonya Wardoyo. *AFTA: Suatu Pengantar*. Yogyakarta: BPFE, 2004.

Table 1. Kinds and Characteristics of Regional Economic Integration

Policy	Kinds				
	FTA	CU	CM	EU	TEI
Barriers write off for tariff and quotas	Yes	Yes	Yes	Yes	Yes
Common external tariff	No	Yes	Yes	Yes	Yes
Inter state members free mobility of production factors	No	No	Yes	Yes	Yes
Economic policy harmony under supra-national organizations	No	No	No	Yes	Yes
Full economic union policy	No	No	No	No	Yes

*FTA=Free Trade Area, CU=Customs Union, CM=Common Market, EU=Economic Union, TEI=Total Economic Integration

Source: Dicken (1992: 160); Jovanovic (2006)

into 4 kinds of products i.e.: (1) Inclusion List (IL), meaning that the products should have liberation in tariff reduction under CEPT program, and should wipe out both quantitative and other non-tariff barriers; (2) General Exception List (GEL), referring to products list excluded from CEPT program by a country due to some important considerations concerning the national security, social morality, life and health (human, animals, or plants), art values, and history; (3) Temporary Exclusions List (TEL), referring to a list containing sensitive products that are temporarily excluded because the products are considered not ready to be CEPT products; and (4) Sensitive List (SL), referring to a list containing non-processed farming products.

Products included within the inclusion list are divided into two program groups, i.e. fast track program and normal

track program. Those included in the fast track program are vegetable oil, cement, chemical products, pharmaceutical products, fertilizers, plastics, products made of rubber and leather, pulps, textiles, ceramics and glasses, gemstones and jewelries, copper cathodes, electronics, and furniture made of wood and rattans.

Products included within the exclusion list are: (1) farming products under GATT agreement; (2) sensitive products determined by negotiation; (3) all products under PTA program but not traded within AFTA program shall benefit the MOP facility until 31 December 1992.

It seems that the steps to attain AEC 2015 imitate many of those run through by European countries in their process of establishing European Union (EU). Economic cooperation in an area follows some sequential steps started from Free Trade Area (FTA), customs union, common

market, and then economic union, and total integration.^{4 5} Table 1 summarizes the differences among the four steps of regional economic integration.

Free Trade Area (FTA) is an area where imported goods from state-members are free from tariff and quota. However, each country still applies common external tariffs. Some other FTA(s) are among others North American Free Trade Agreement (NAFTA), ASEAN Free Trade Area (AFTA), and European Free Trade Association (EFTA).

Customs Union (CU) is a kind of FTA which removes the barriers of intra state-members commodities movement and applies Common External Tariff. An example of CU is Mercado *Común del Sur* (Mercosur). In the beginning, Mercosur was a kind of Regional Trade Agreement (RTA) covering up Argentina, Brazil, Paraguay, and Uruguay. This agreement was established and began to run in 1991 through a Treaty of Asunción among those four countries. The aim was to create a free trade and smoothen the mobility of commodities, people, and exchange rates. Mercosur now has more countries as the members i.e.: Bolivia, Chile, Colombia, Ecuador, and Peru.

Common Market is a kind of Custom Union which also removes restrictions upon the distributions of all production factors (goods, services, and capital flow). The tariffs of production factors are expected to create an efficient source allocation. An example of CM is European Union before the establishment of European Monetary

Union (EMU).

Economic Union (EU) a kind of Custom Union with a certain level of harmony for economic policies to remove distortion resulted from different policies. Total economic integration is a unification of monetary, fiscal, and social policies by establishing supra-national authority whose decisions are compulsory for the state-members. A good example is European Central Bank which formulates the monetary policy and issues Euro currency for European countries as the members of European Union.

Total Economic Integration is a union of monetary, fiscal, and social policy followed by the establishment of supra-national authority whose decisions are compulsory for all the state-members.

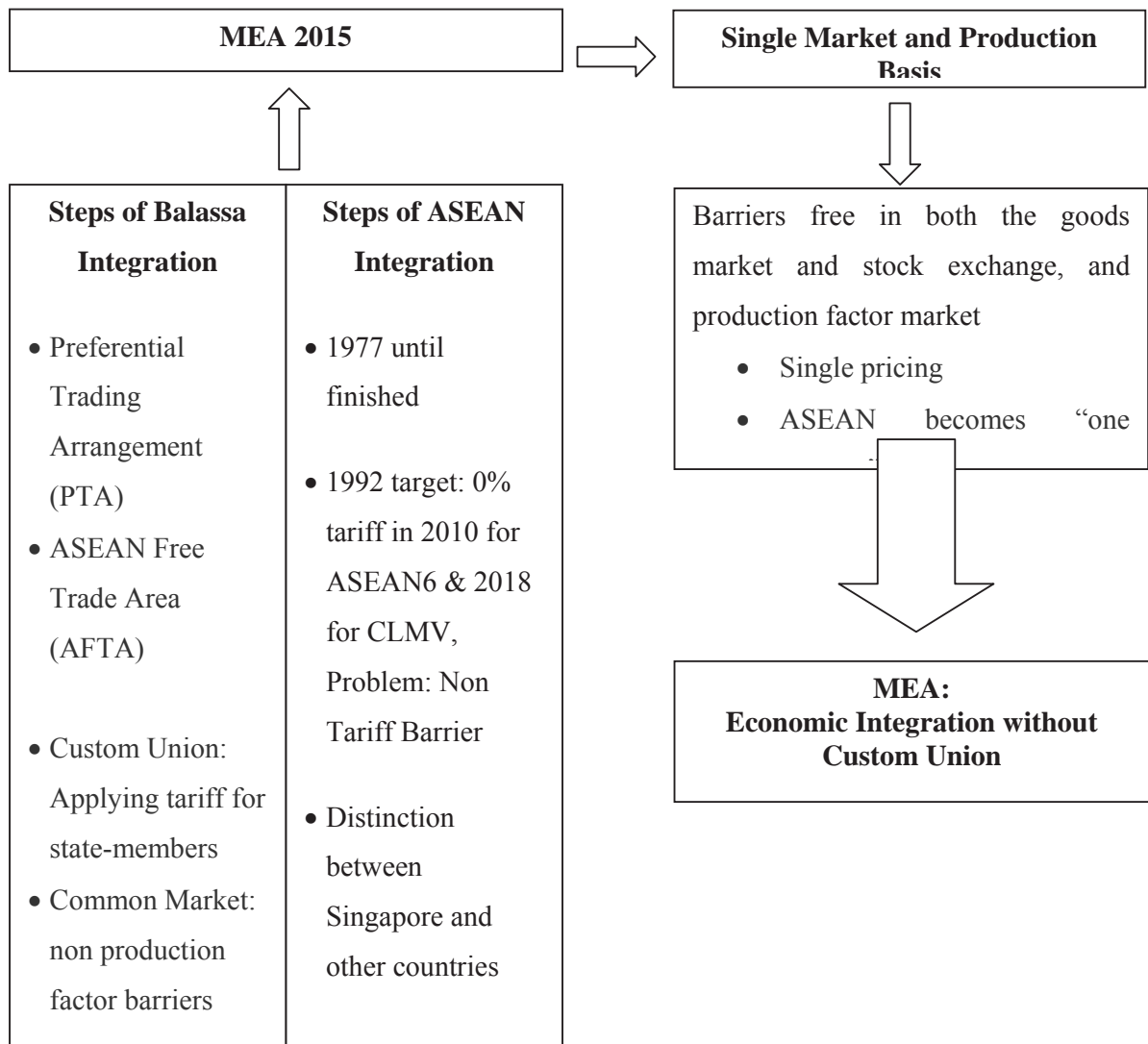
The way ASEAN conducts a process heading to the end form of ASEAN Economic Community (AEC) refers to the preceding economic cooperation process done by ASEAN as presented in Figure 2.

Considering that AFTA has already been established, it is most likely that ASEAN will apply an economic integration called customs union before functioning AEC expected to be the common market. In other words, AEC has a higher level of economic integration than does free trade area or customs union, because in a common market, it is not only the wipe off for inter state-members trade and the implementation of common trade, but most of all, the production factors move freely from one country to another within the union. To reach the highest level of economic integration or economic union, it is suggested that trade barriers should be removed and a harmony of economic policy under the 'supra-national' supervision is implemented.

⁴ Mudrajad Kuncoro. *Manajemen Keuangan Internasional: Pengantar Ekonomi & Bisnis Global*. Yogyakarta: BPFE, 2002.

⁵ Peter Dicken. *Global Shift*. Paul Chapman Publishing: University of Manchester, 1992.

Figure 2. Steps of Balassa Integration and Steps of ASEAN for AEC



Source: Kosotali, *et al.* (2008)

B. Stumbling Block

B. 1. For ASEAN

Many observers see that towards AEC is a tough road for ASEAN and there can be many stumbling blocks on the way. There is a big gap among the 10 state-members of ASEAN. First, seen from the tariff, Singapore has applied import tariff 0%, yet Vietnam has 17% average.

In the beginning of implementing CEPT for all ASEAN 6, some countries tended to take careful steps in liberating tariffs. This can be seen from the relatively

many products from some countries included in TEL, such as Indonesia (1,654 products), Philippines (714 products), and Malaysia (627 products) (see Table 2). This condition shows that some industries in ASEAN were not ready to liberate their trading. It is assumed that it had a connection with the role of some business lobbyists who demanded protections for their industries from the governments.

Table 2. Goods Distribution Based on Route Kind and Tariff Group 1993

Country	Fast Track	Normal Track	Temporary Exclusion	General Exception	Unprocessed Agricultural Products	Total
Brunei Darussalam	2,42	3,659	208	201	56	6.544
Indonesia	2,816	4,539	1,654	50	324	9.383
Malaysia	3,166	5,611	627	98	541	10.023
Philippines	1,033	3,418	714	28	398	5,591
Singapore	2,205	3,517	-	120	-	5,842
Thailand	3,509	5,254	118	26	415	9,322

Source: Asean Secretariat dalam Arifin *et al* (2008)

Table 3. Distribution of Tariff Group (CEPT) and the Segment

Country	Group of Tariff					Group Segment of Tariff (%)				
	IL	TEL	GEL	SL/HSL	Total	IL	TEL	GEL	SL/HSL	Total
Indonesia	8.62	0	96	16	8.732	98,72	0	1,1	0,18	100
Singapore	10.705	0	0	0	10.71	100	0	0	0	100
Malaysia	12.504	0	89	0	12.59	99,29	0	0,71	0	100
Brunei Darussalam	9.924	0	778	0	10.7	92,73	0	7,27	0	100
Thailand	8.242	0	0	0	8.242	100	0	0	0	100
Philippines	11.444	0	27	19	11.490	99,6	0	0,23	0,17	100
ASEAN-6	61.439	0	990	35	62.46	98,36	0	1,58	0,06	100
Cambodia	10.454	0	181	54	10.69	97,8	0	1,69	0,51	100
Laos	10.023	0	464	203	10.69	93,76	0	4,34	1,9	100
Myanmar	10.611	0	51	27	10.69	99,27	0	0,48	0,25	100
Vietnam	10.523	0	166	0	10.69	98,45	0	1,55	0	100
CLMV	41.611	0	862	284	42.76	97,32	0	2,02	0,66	100
TOTAL ASEAN	103.05	0	1.852	319	105.2	97,94	0	1,76	13,30	100

Source: ASEAN Secretariat in Arifin *et al* (2008)

Table 4. Distribution of Tariff in Inclusion List and the Segment

Country	Group of Tariff				Group Segment of Tariff (%)			
	0%	0-5%	>5%	Total	0%	0-5%	>5%	Total
Indonesia	5.731	8.620	0	8.62	66,48	100	0	100
Singapore	10.705	10.705	0	10.705	100	100	0	100
Malaysia	10.181	12.439	34	12.473	81,62	99,73	0,27	100
Brunei Darussalam	7.591	9.924	0	9.924	76,49	100	0	100
Thailand	4.513	8.229	13	8.242	54,76	99,84	0,16	100
Philippines	5.756	11.369	75	11.444	50,30	99,34	0,66	100
ASEAN-6	44.477	61.286	122	61.408	72,43	98,80	0,20	100
Cambodia	603	6.638	3.816	10.454	5,77	63,50	36,50	100
Laos	629	9.960	63	10.023	6,28	99,37	0,63	100
Myanmar	365	9.325	1.286	10.611	3,44	87,88	12,12	100
Vietnam	5.478	10.285	238	10.523	52,06	97,74	2,26	100
CLMV	7.075	36.208	5.403	41.611	17,00	87,02	12,98	100
TOTAL ASEAN	51.552	97.494	5.525	103.019	50,04	94,64	5,36	100

Source: ASEAN Secretariat in Arifin *et al* (2008)

In the last trend (August 2007), from 105,221 tariff posts, there were 103,050 tariff posts (or 97.9 percent) included in IL category (see Table 3). It is most likely that some products were switched from TEL into IL. This condition shows the seriousness of ASEAN countries in implementing intra-area trade liberation, especially the commitment to write off tariff barriers. As the results, 97,494 tariff posts (about 95 percent) in IL tariff were successfully reduced to become 0-5 percent (see Table 4). Based on country group, almost all posts in IL in ASEAN 6

(99.8 percent) were successfully reduced to become 0-5 percent, while CLMV reached 87 percent.

Second, various business climates occur in ASEAN countries. Singapore, Thailand, and Malaysia place themselves on big 20 of the world rank in the facility of starting businesses. Out of these three countries are the countries far below rank 20 (see table 5). There is a possibility that if those countries far below rank 20 do not quickly manage their business climate, only these three countries benefit from AEC.

Table 5. Business Climate of ASEAN Countries

Country	Rank of Facilities to Start a Business	Rank of Starting a Business	Number of Days to start a Business	Rank of Business Contract Making
Singapore	1	10	4	14
Thailand	13	44	33	25
Malaysia	20	75	13	59
Brunei Darussalam	88	130	116	157
Vietnam	92	108	50	42
Indonesia	129	171	76	140
Cambodia	135	169	85	136
Philippines	140	155	52	114
Lao PDR	165	92	103	111

Source: World Bank (2009)

Third, gap also occurs in the Gross National Product (GNP) of ASEAN countries. In average, ASEAN countries have GNP per capita US\$2,227, with Myanmar having the lowest GNP of US\$215, Indonesia in the middle with GNP of US\$1,919, and the richest country Singapore with GNP of US\$35,206 (see Table 6).

Unlike EU, intra ASEAN trading is relatively low. Moreover, the economic integration among ASEAN state-members runs slowly. The statistic shows that trading and investment in ASEAN do not show a significant development. Both export and import from and to ASEAN state-members were about 25% from the total export and import in 2006. Even worse, Indonesia noted about 23.4% of

its total export to other ASEAN countries. This shows a low economic dependency among the ASEAN countries. It is different from EU whose intra-trade is two third of their total export and import. Instead of complementary, the economy of ASEAN countries competes with each other (see Table 7).

In general, before the Asian crisis in 1997, the capital flow to ASEAN 5 was dominated by foreign direct investment (FDI) rather than portfolio investment. For some periods, exceptions were upon some countries i.e. Indonesia, Philippines, and Thailand. This is in line with the policy of ASEAN countries to invite FDI as the source of national development so that this area was once called as ASEAN Miracle.

Table 6. Gross Nation Product (GNP) of ASEAN Countries, 2007

Country	PDB per capita on constant price (in US\$)
Brunei Darussalam	31.076,1
Cambodia	598,4
Indonesia	1.919,6
Laos	736,1
Malaysia	6.880,2
Myanmar	215,6
Philippines	1.652,8
Singapore	35.206,1
Thailand	3.740,1
Vietnam	836,7
ASEAN	2.227,3

Source: ASEAN Secretary (2009)

Singapore dominates intra-ASEAN portfolio investment due to the fact that this country's stock exchange has a significant role in bridging the financial sector in this area. In 2006, Singapore invested portfolio as much as US\$ 23.9 billions or 86 percent of intra-ASEAN total portfolio investment (see Table 8). The second country was

Malaysia having about 7 percent, while Indonesia invested only 1 percent in which the investment was mostly in Singapore. The biggest investment was mostly in the form of stocks (53%) rather than other bonds.

In 2006, the intra ASEAN net inflow FDI was only US\$ 6.2 billions, while from non ASEAN countries, it was as much as US\$ 46.1 billions. To Indonesia, the intra ASEAN net inflow FDI was about US\$ 1.5 billions, while the net inflow FDI from non ASEAN countries was about US\$ 4 billions (see Figures 3 and 4).

Besides that, the AFTA scheme is practically not relevant to the ASEAN founding countries known as ASEAN-5. AFTA does not give attractive incentive, has a limited coverage, and offers a complicated implementation. At the very same time, the ASEAN-5 have applied trade liberation for all nations (most favored nations or MFN within WTO) with at least the same qualified scheme as that of AFTA but without complicated bureaucracy. Consequently, intra-ASEAN trade does not apply the AFTA scheme, instead, it is an ordinary trade using MFN scheme. The AFTA Scheme is in fact only about 5-10% of intra-ASEAN trade.

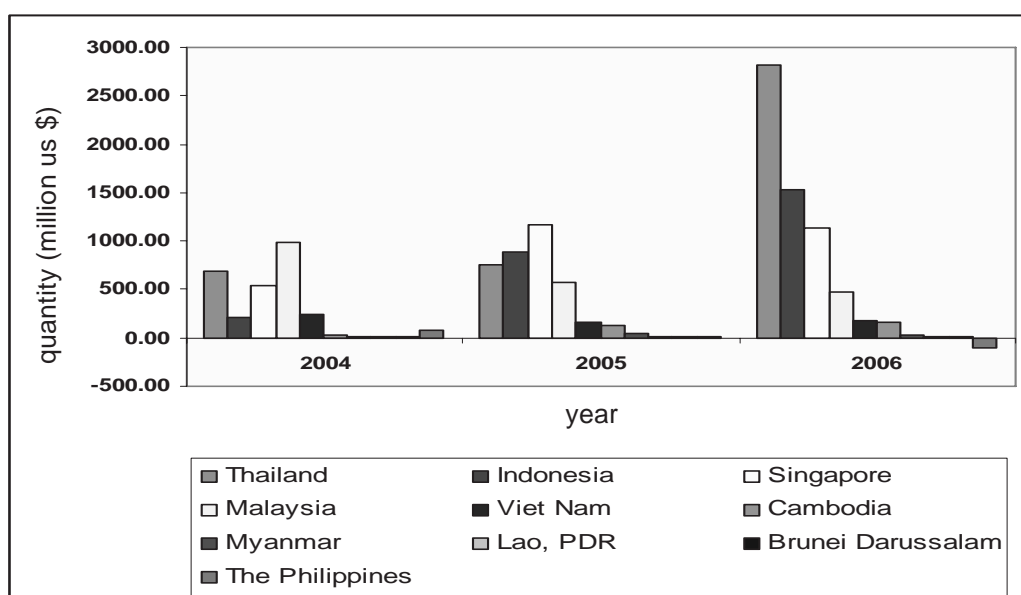
What about the tourist inflow? Of the 54.9 million tourists coming into ASEAN in 2007, only 24.1 million (45%) came from ASEAN countries. Most tourists traveled to Malaysia (18.3 millions), Thailand (10.4 millions), and Singapore (10.1 millions). Those coming to Indonesia were only 4.1 millions (see Figure 5).

Table 7. Intra ASEAN Trade, Year 2006 (million US\$)

No	Country	Export Value	Import Value	Total Intra ASEAN Trading	Total Trading of each Country towards Total Intra ASEAN Trading
1	Singapore	83,801.60	62,300.40	146,102.00	41.42%
2	Malaysia	40,979.60	32,290.70	73,270.30	20.77%
3	Thailand	26,944.20	23,539.80	50,484.00	14.31%
4	Indonesia	18,483.10	19,379.20	37,862.30	10.73%
5	Viet Nam	6,214.00	12,453.70	18,667.70	5.29%
6	Philippines	8,192.20	10,218.30	18,410.50	5.22%
7	Myanmar	2,149.70	1,174.70	3,324.40	0.94%
8	Brunei Darussalam	1,887.30	745.8	2,633.10	0.75%
9	Cambodia	235.4	991.2	1,226.60	0.35%
10	Lao, PDR	289.8	500.7	790.5	0.22%
Total ASEAN		189,176.90	163,594.50	352,771.40	100%

Source: ASEAN Secretary (2007)

Figure 3. Intra ASEAN FDI 2006



Source: ASEAN Secretary (2007)

Table 8. Allocations of ASEAN Portfolio Investment 2006*

Investment to	Investment from					Total Global Investment Value
	Indonesia	Malaysia	Philippine	Singapore	Thailand	
Brunei Darussalam	-	-	-	-	--	489
Cambodia	-	-	-	-	19	24
Indonesia	-	147	6	5,507	2	38,908
Laos	-	-	-	-	1	26
Malaysia	8	-	330	13,023	170	59,381
Myanmar	-	-	-	2	--	3
Philippines	2	26	-	963	1	30,25
Singapore	226	1,629	622	-	529	126,085
Thailand	12	53	26	4,235	--	37,805
Vietnam	-	-	-	175	14	1,841
Total ASEAN	248	1,854	984	23,906	737	100%
- in stocks	19	1,662	3	12,889	226	53%
- in bonds	229	192	980	11,017	511	47%
Total Global Investment	1,507	7,188	7,156	244,58	5,144	32,391,453

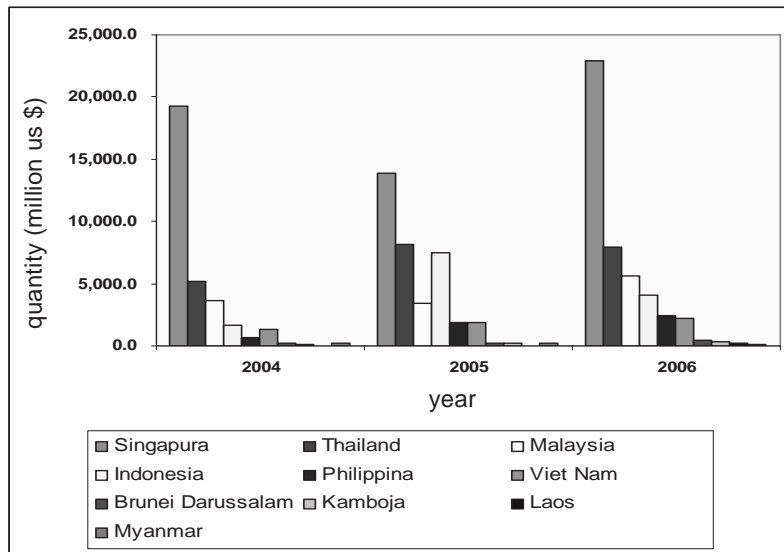
Source: CPIS, IMF 2007 in Arifin, et al (2008)

* temporary data

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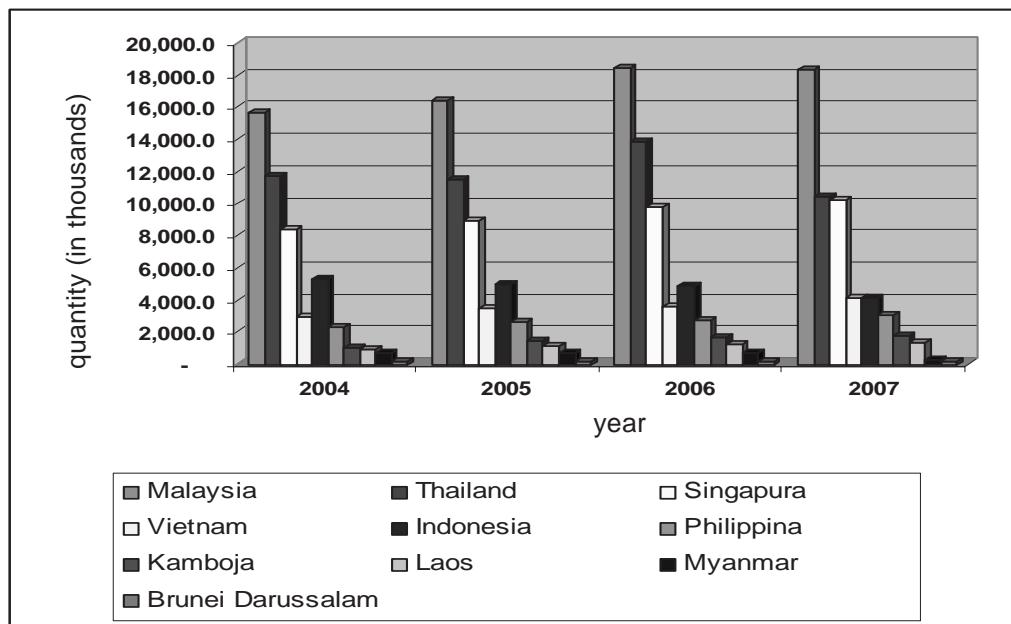
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Figure 4. Non ASEAN countries FDI, 2006



Source: ASEAN Secretary (2007)

Figure 5. Tourist inflow to ASEAN, 2004-2007



Source: ASEAN Secretary (2008)

B. 2. For Indonesia

Indonesia as one of the countries which has a high level of integration in the field of electronics and comparative advantages in natural resources sectors has a significant opportunity to develop those industries. Therefore, there must be more efforts to increase the competitive value of the products in order not to be left behind by other ASEAN countries.

Indonesia has four sectors integrated with other ASEAN countries. This places Indonesia under Malaysia (all eight sectors) and Philippine (five sectors). Nevertheless, Indonesia has comparative advantages in five priority sectors, a bit less than does Thailand which has comparative advantages in seven priority sectors, but more than other ASEAN countries do.

Of ASEAN countries, Indonesia is the country having the most non-tariff barriers, in which six of them do not exist in other ASEAN countries. At the present time, there are more than 22 government institutions getting involved in both export and import activities, especially concerning licensing, with more than 40 issued documents taking about 5 days to accomplish.

All kinds of barriers resulting inefficiency and high cost economy weakening competitive advantages should be eliminated. Inter sectors coordination must be conducted to come into a common perception between government and business runners, and a harmony of policy in both central government and local government. When these are done,

Indonesia has a significant chance to gain optimum benefit from the integration.

A good coordination must be supported by a nationally integrated system. Therefore, all parties must support the establishment of NSW the integration of NSW to ASW in 2008. Hence, the economic integration of Indonesia with ASEAN countries can be deepened and widened, especially upon the advantaged sectors. Thus, Indonesia may gain as many benefits as possible from the ASEAN economic integration in the frame of MEA.

C. Implementation of AEC Commitment by Government

The blue print of AEC 2015 signed by government in Singapore 20 November 2007 has been broken down into the policy package contained in Governmental Directive No 5 year 2008 on Economic Development Focus 2008-2009 (*Inpres no 5 Tahun 2008 Tentang Fokus Pembangunan Ekonomi 2008-2009*). This shows that the government of SBY-JK committed to fully implement AEC. This *Inpres No. 5 Tahun 2008* contains 3 programs and 3 actions i.e. first, AEC commitment for free services inflow by coordinating the regulation issuance to liberate services. Second is the Commitment of AEC towards competitive economic area by issuing regulation to implement the commitment towards Competitive Economic area. Third is socialization of commitment implementation of AEC 2015 by coordinating the implementation of the Blue Print of AEC 2015 (see Table 9).

Table 9. Policy on Implementing AEC Commitment within Presidential Directive No. 5, Year 2008

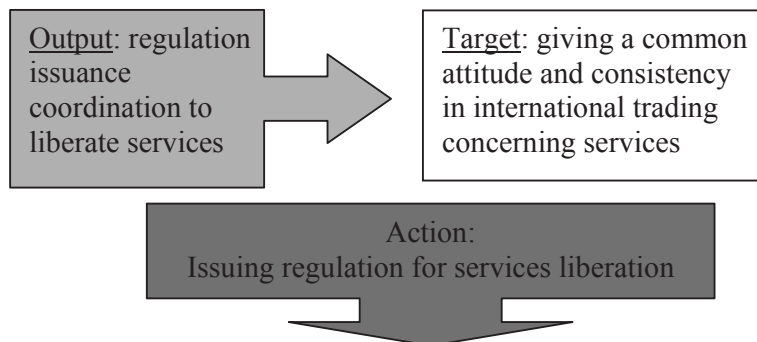
Policy	Program	Action
Commitment Implementation of ASEAN Economic Community - AEC	AEC Commitment for Free Service Inflow	Coordinating the regulation issuance to liberate services
	AEC Commitment towards Competitive Economic Area	Issuing regulation to implement the Commitment towards Competitive Economic Area
	Socialization of Commitment Implementation of AEC 2015	Coordinating the implementation of the Blue Print of AEC 2015

Source: Coordinator Minister of Finance (2008)

To carry out the AEC commitment program for free services inflow, an action is made by coordinating the regulation issuance to liberate services. The expected output is regulation issuance coordination to liberate services. The target of this program is to give a common attitude and consistency in international trading concerning services (see Figure 6)

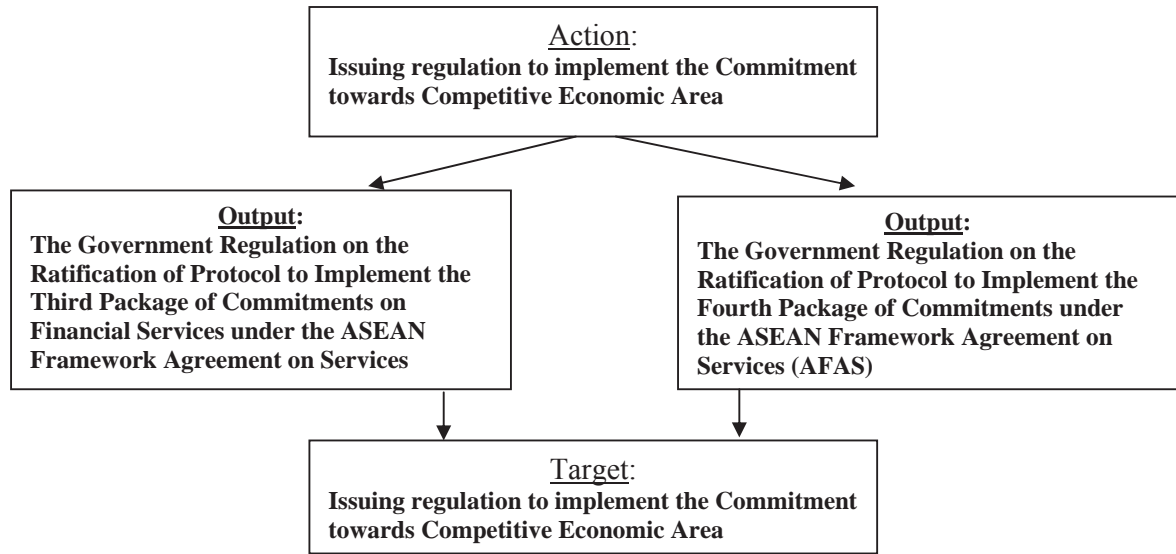
The result is pleasing for Indonesia in that this country, in term of AEC commitment program for free services inflow, has fulfilled the threshold commitment package 6 of ASEAN Framework Agreement on Services (AFAS) for 77 sub sectors (of minimally 70 sub sectors agreed). Furthermore, a follow up for issuance or domestic regulation

Figure 6. Action, Outputs, and Program Target of AEC Commitment for Free Services Inflow



Source: Coordinator Minister of Finance (2008)

Figure 7. Action, Outputs, and Program Target of AEC Commitment for Competitive Economic Area



Source: Coordinator Minister of Finance (2008)

adjustment on services to support the commitment implementation of ASEAN services liberation is urgently needed.

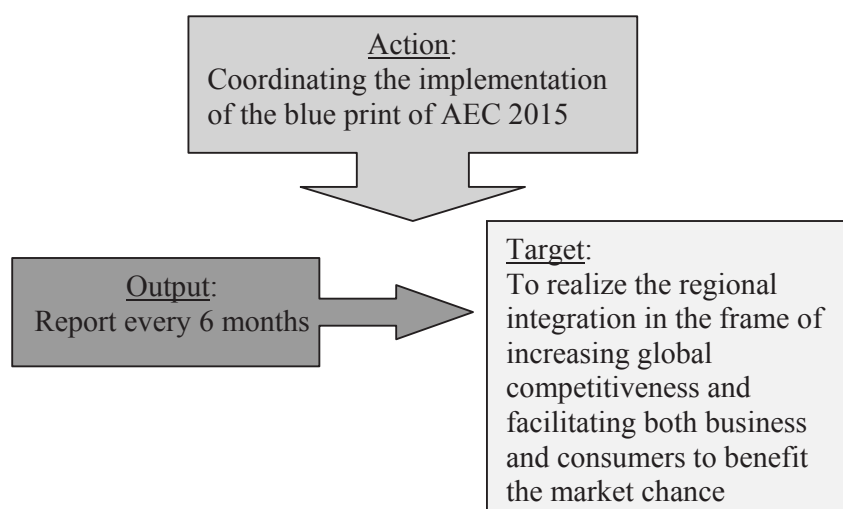
To carry out the AEC commitment program towards competitive economic area, the government has issued the concerned regulations. This has resulted to two outputs: first is the Government Regulation on the Ratification of Protocol to Implement the Third Package of Commitments on Financial Services under the ASEAN Framework Agreement on Services (AFAS). The second is the Government Regulation on the Ratification of Protocol to Implement the Fourth Package of Commitments under the ASEAN Framework Agreement on Services (AFAS). The target to reach is the fulfillment of AEC commitment (see Figure 7).

The results achieved from the AEC commitment program towards competitive economic area are first the ratification of Government Regulation No 51 Year 2008 on 31 July 2008 on the Protocol to Implement the Third Package of Commitments on

Financial Services under the ASEAN Framework Agreement on Services (AFAS). The second is the Government Regulation No 52 Year 2008 on 31 July 2008 on the Ratification of Protocol to Implement the Fourth Package of Commitments under the ASEAN Framework Agreement on Services (AFAS).

To carry out the Socialization of Commitment Implementation of ASEAN Economic Community 2015, the coordination for the implementation of the blue print of AEC 2015 has been conducted. This action has resulted to a report every six months to realize the regional integration in the frame of increasing global competitiveness and facilitating both business and consumers to benefit the market chance. The result achieved for this program is that the government has continually conducted the socialization of commitment implementation of ASEAN Economic Community 2015 (see Figure 8).

Figure 8. Action, Outputs, and Program Target of Socialization of Commitment Implementation of AEC 2015



Source: Coordinator Minister of Finance (2008)

D. Conclusion

Politically, the ASEAN leaders have strong political will to embody AEC. However, even though the 10 ASEAN leaders have signed the agreement, they still need further ratification by each country's parliament.

It seems that, from the latest trend, the will to establish AEC 2015 has to walk through a lot of tough barriers and difficult hindrances. Every country seems to worry about losing national identity. On the other hand, business people and those involving into industrial world see this AEC at the same time as a challenge and an opportunity as well.⁶

There many unanswered questions: Will the ASEAN integration towards AEC really bring and increase the prosperity to ASEAN people? Who gain the most benefit

from this ASEAN integration? What are the effects of ASEAN integration towards Indonesia business people who mostly are Small Medium Enterprises runners?

Does business world enthusiastically welcome AEC? Do they see ASEAN as a single market and a production basis? The PECC survey in 2007 found that the biggest obstacles for AEC integration for the business world are uncertain law enforcement, infrastructure, poor corporate governance, and insufficient protection for intellectual rights.⁷

Perhaps the myth of united ASEAN will vanish should AEC be really established in 2015. We will witness whether ASEAN Community, scheduled to be effectively valid in 2015, really comes true. If it is true, the integration of these 10 countries

⁶ "Outlook for RI, ASEAN, East Asia in 2008," (Jakarta Post, 21 Januari 2008). <http://www.thejakar-tapost.com/Outlook2008/pol01b.ASP>.

⁷ "The Asean Community: Unblocking the Road-blocks" (Institute of Southeast Asian Studies, 2008). <http://www.iseas.edu.sg/asc/ascrs1.pdf> (26 Februari 2009).

with about 567 millions people will be the largest area in the world an enchanting market for any companies and investors.

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Indonesia and the WTO Dispute Settlement System

Joseph Wira Koesnaidi¹ and Junianto James Losari²

Abstract

This paper discusses several issues in relations with Indonesia and its utilization of the WTO Dispute Settlement System as a Complainant or a Third Party. It is shown that Indonesia has not yet active using the WTO Dispute Settlement System to secure its trading rights under the WTO. Therefore, optimism on the future of Indonesia and WTO Dispute Settlement System should be built since the government sees the importance of WTO litigations for our national interests and due to the WTO is a rule-based system and its major achievement is to have an effective dispute settlement mechanism.

Keywords: Indonesia, WTO Dispute Settlement System, RTA.

“The best international agreement is notworthverymuchifitsobligationscannot be enforced when one of the signatories fails to comply with such obligations. An effective mechanism to settle disputes thus increases the practical value of the commitments the signatories undertake in an international agreement”.³

Indonesia has been a member of the World Trade Organization (WTO) since its creation on April 15, 1994. Indonesia’s membership can even be traced back to February 24, 1950, as one of the Contracting Parties to the General Agreement on

Tariffs and Trade 1947 (GATT 1947). To date, Indonesia has been using the WTO Dispute Settlement System in five cases as Complainant⁴, four cases as Respondent⁵, and four cases as Third Party.⁶ Although involvement in the WTO Dispute Settlement System is not new to Indonesia, however, these numbers are considerably low compared to other developing countries like India,⁷

¹ Joseph Wira Koesnaidi, S.H., LL.M is the managing partner in the law firm Bundjamin & Partners (www.bplaw.co.id) and was an intern in the Legal Affairs Division at the World Trade Organization. With Prof. Peter van den Bossche and Daniar Natokusuma, Mr. Koesnaidi is the co-author of “Pengantar Hukum WTO”. He can be reached at josephkoesnaidi@gmail.com.

² Junianto James Losari, S.H. is a graduate student at IELPO Master Program of International Economic Law and Policy of University of Barcelona. He can be reached at jlosari@ielpo.org

³ World Trade Organization, *A Handbook of The WTO Dispute Settlement System*, p.1.

⁴ As Complainant in *Argentina-Safeguard Measure on Imports of Footwear* (DS 213), *US-Continued Dumping and Subsidy Offset Act of 2000* (DS 217), *Korea-Anti Dumping Duties on Imports of Certain Paper From Indonesia* (DS 312), *South Africa- Anti Dumping Measures on Uncoated Woodfree Paper* (DS 374), and *US- Measure Affecting the Production and Sale of Clove Cigarettes* (DS 406).

⁵ As Respondent in *Indonesia-Certain Measures Affecting the Automobile Industry* (DS 54, DS 55, DS 50, DS 64).

⁶ As Third Party in *Brazil- Measure Affecting Desiccated Coconut* (DS 22), *Argentina-Safeguard Measure on Imports of Footwear* (DS 121 and DS 164), and *US-Continued Dumping and Subsidy Offset Act of 2000* (DS 234).

⁷ India, as complainant in 19 cases, as respondent in 20 cases, as third party in 63 cases

Thailand,⁸ Argentina,⁹ Brazil,¹⁰ or Mexico.¹¹

Indonesia's low utilization of the WTO Dispute Settlement System as either a Complainant or a Third Party does not necessarily mean there have been no potential WTO inconsistent measures implemented against Indonesia. Indonesia has been facing many market access barriers in form of tariff or non-tariff measures, some of which are never brought to the WTO Dispute Settlement System. Our fish products were subject to testing requirements for every consignment due to the allegation of heavy metals and histamine contaminations.¹² Our national airline, Garuda Indonesia, was banned to fly into Europe.¹³ Our Crude Palm Oil (CPO) has been boycotted in Europe due to environmental reasons.¹⁴ Our paper products have been subjected to many trade remedies instruments, some of which were found to be WTO inconsistent.¹⁵ The latest is, our cloves cigarette has been banned to be sold in the US

because the US claims it attracts youngster to start smoking.¹⁶

This paper seeks to explore several issues in relations with Indonesia and its utilization of the WTO Dispute Settlement System as a Complainant or a Third Party. In Part I, it will analyze the possible reasons why Indonesia is not as active as other developing-country Members in utilizing the WTO Dispute Settlement System and propose potential solutions to the problems. While in Part II, this paper will explore the future of Indonesia's usage of the Dispute Settlement System amidst its increasing participation in various Regional Trade Agreements. Finally, Part III will be the conclusion.

A. Reasons of Indonesia's Inactivity in The WTO Dispute Settlement System

We identify at least four possible factors which prevent Indonesia from actively pursuing its market access right under WTO Agreements, namely 1) Human Resources; 2) Cost of Dispute; 3) Problematic Decision-Making Mechanisms; and 4) Enforcement Mechanism of the panel and Appellate Body Reports. Some of these factors are closely related one to another as elaborated in the following.

1. Human Resources

In order to be able to litigate a WTO-related dispute, developing countries need experts of WTO Law. Even before deciding to resort to litigation, we need these experts in identifying the potential breach of WTO law implemented by another WTO Members which nullify

⁸ Thailand, as complainant in 13 cases, as respondent in 3 cases, as third party in 45 cases

⁹ Argentina, as complainant in 15 cases, as respondent in 17 cases, as third party in 30 cases.

¹⁰ Brazil, as complainant in 25 cases, as respondent in 14 cases, as third party in 61 cases.

¹¹ Mexico, as complainant in 21 cases, as respondent in 14 cases, as third party in 55 cases.

¹² OJ L215, 12.8.2008, p 6-7 (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:215:0006:0007:EN:PDF>)

¹³ "List of 'blacklisted' airlines revised, Indonesia appeals," *New Europe*, December 1, 2007. <http://www.neurope.eu/articles/80383.php> (November 22, 2010).

¹⁴ Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the Promotion of the Use of Energy from Renewable Resources).

¹⁵ There were 2 cases in the WTO challenging the imposition of antidumping measures on Indonesia paper products by South Korea (DS 312) and South Africa (DS 374). The case against South Africa was settled in the consultation phase.

¹⁶ Jonathan Lynn, "Indonesia takes U.S. to WTO over clove cigarette ban," *Reuters*, April 12, 2010, <http://www.reuters.com/article/idUSTRE63B42020100412> (November 22, 2010).

or impair Indonesia's trading rights as a WTO Member. This raises serious concern because apparently developing countries, including Indonesia, are lacking of specialized trade lawyers and experts. Undeniably, there are number of government officials from the Ministry of Foreign Affairs or the Ministry of Trade who deal with specific WTO related issues. However, the rotation system which often happens in government institutions results in the absence of experienced people in a particular issue particularly on dispute settlement. For many years, there has been no functional position for government officials to be specialized in international litigations including litigations at the WTO. Thus, the issue of human resources arises again.

Indonesia's condition is different from some of other developing country Members like Brazil, Mexico and India. In many occasions, those countries represent themselves by using in-house legal experts from their Ministry of Foreign Affairs, Ministry of Trade, or lawyers from their respective permanent missions. Those experts and lawyers have undergone rigorous trainings and have considerable amount of experience in WTO dispute settlement proceedings. In some cases, these countries also gave opportunity to local private lawyers to be involved in panels or Appellate Body proceedings. Some of those countries also open internship programs for non-governmental individuals in the countries' respective missions or trade-related Ministries to give them practical experience on WTO related issues including dispute settlement so when they go back to their law firms, universities, companies or other

institutions they can use their knowledge and experience about the WTO System.

Compared to those countries, Indonesia has not had that many trade experts or trade lawyers, trained in such ways YET. For this reason, in its past participation in the WTO Dispute Settlement System, Indonesia predominantly has been represented by foreign trade lawyers. Moreover, this issue can be a major hurdle for Indonesia even at an earlier stage of deciding whether to file a complaint or even to participate as a third party in a dispute. Without enough experts with specific knowledge in WTO Law, there exists high uncertainty of both on the existence of violation and the potential outcome of pursuing a particular measure.

Those being said, the WTO actually realized about the human resource limitation issue in the Dispute Settlement System. Thus, through its Secretariat, the WTO provides technical assistance to developing-country Members in respect of dispute settlement when they so request. Article 27.2 of the DSU recognizes that there may be a need to provide additional legal advice and assistance to developing country Members. To meet this additional need, Article 27.2 requires the WTO Secretariat to provide a qualified legal expert. This assistance is being coordinated by the Institute for Training and Technical Cooperation (ITTC), a division in the WTO Secretariat. Currently, ITTC employs one full-time official and on a permanent part-time basis, two independent consultants as the experts available for the developing country Members. However, such assistance is limited because the expert can only assist in a manner ensuring the

continued impartiality of the Secretariat, and there can be no assistance for support in litigation proceedings.

The legal assistance provided by the WTO Secretariat may not serve as solution. Moreover, in a dispute between two WTO Members who are both requesting the Secretariat's assistance, the Secretariat can only provide legal advice that is very limited to discussion of general terms and information of each party's options.

Nevertheless, Article 27.3 of the DSU enables developing country Members to have their experts trained in special training courses concerning WTO dispute settlement procedures and practices. These trainings are regularly held by ITTC and the Legal Affairs Division of the Secretariat. The participants include government officials, academics, university professors and private sectors world-wide.

In practice, the assistance offered by the DSU might not be very helpful for short term to increase Indonesia's capacity to lodge complaints before the WTO Dispute Settlement System. Indonesia needs more than mere legal advice. Indonesia also needs trade lawyers or experts who can represent them in a dispute before a panel or the Appellate Body. However, this is not provided by the DSU.

There exists another more effective legal assistance for developing country Members, provided by the Advisory Centre on WTO Law (ACWL). ACWL, established in 2001, is a Geneva-based independent, intergovernmental organization (not attached to the WTO), which functions as a law office specializing in providing free legal advice and training exclusively to developing country and economy-in-transition members of ACWL and all least-

developed countries. The legal advice and training are specifically on WTO Law and the WTO Dispute Settlement System.¹⁷ Additionally, ACWL provides litigation support at all stages in WTO dispute settlement proceedings at very low rates compared to other private law firms. ACWL has gained considerable experience in litigating WTO disputes. In fact, Indonesia has twice used the legal support of ACWL, namely in the cases of *Korea-Anti Dumping Duties on Imports of Certain Paper* (DS 312) in 2004 and *South Africa-Anti-Dumping Measures on Uncoated Woodfree Paper* (DS374) in 2008.

An issue might still arise to obtain support when an issue arises between Indonesia and another member of ACWL. According to the Agreement establishing the Advisory Centre on WTO Law (ACWL Agreement), the issue might be resolved by giving priority in the following order, least developed countries, Members that have accepted ACWL Agreement, and Members that acceded to ACWL Agreement.¹⁸ After all, to serve 30 countries (ACWL Members) which have been involved in thirty four WTO cases (either as complainant, respondent or third parties) at the moment ACWL has only seven permanent lawyers and three junior lawyers.

In practice, ACWL tries to accommodate the need of both Members requesting the litigation support. In order to prevent conflict of interest, the first party requesting the support will be assisted by ACWL's staff. Meanwhile the other party will be assisted by external counsel. The external counsel is law firms and individuals who have agreed to provide

¹⁷ The Training conducted by ACWL mostly for Geneva-based government officials from ACWL Member countries.

¹⁸ Article 8 of the ACWL Agreement.

their services as external counsel according to certain terms and conditions.

Although ACWL can be a temporary solution to the shortage of human resources in Indonesia, Indonesia should endeavour to increase the number of Indonesian trade lawyers and experts, and to further increase the experience of the existing ones. Some of the ways are to benefit from the previously mentioned trainings provided both by the WTO and ACWL, as well as providing exposure to the existing lawyers and experts by participating in a WTO dispute as a third party.

Most developing countries which are actively participating in the WTO Dispute Settlement System started by becoming third parties to various WTO disputes. Pursuant to Article 10 of the DSU, any Member having substantial interest in a matter before a panel and having notified its interest to the DSB shall have the opportunity to be heard and to make written submissions to the panel as well as receive the submissions of the parties to the dispute in the first meeting of the panel. Third party right can also be exercised at the Appellate Body stage. The third party submissions shall also be reflected in the reports.

There are many advantages in becoming a third party to a WTO dispute. First is to learn about WTO dispute settlement proceedings. Once a Member's flag is raised when the chair of Dispute Settlement Body (DSB) asks to all Members during the DSB meeting establishing a panel whether any Member would like to be third party in the dispute or a formal written request submitted to DSB within timeframe set by the DSB, all third party rights shall be granted to the Member.

As third party, the Member has the right to obtain the first submissions by the Complainant(s) and Respondent. Third party has also the opportunity to submit written submission within the timeframe set in the timetable of the panel usually around one or two weeks after the deadline of submission of the Respondent. Written submissions by third party will be reflected in the panel reports although there is no strict obligations that the panel must evaluate or take into account every arguments and issues raised by the third party.

In the first substantive meeting, opportunity for third party to submit its oral submission is provided. Usually it is after the first statement of the Complainant(s) and the Respondent. The Complainant(s) and the Respondent of the dispute have the right to be present during the oral submissions of third party but it is not applicable vice versa. Third party which does not submit written submission could still present its view in the oral hearing. However, submissions by third party are not mandatory meaning a third party can be very passive without giving any submission while still has the right to receive submissions and to attend the first substantive meeting allocated for third party.

This opportunity usually is used by many Members particularly developing-country Members to learn about WTO dispute settlement proceedings and to train their in-house lawyers and to give them experiences about procedural issues on the WTO Dispute Settlement System. So by the time they are becoming either Complainant or Respondent to a dispute, they already has the knowledge, skills and experiences.

Second is learning about the substance of the dispute itself. Many of the measures at issue to a dispute are about trade policies. Similar trade policies might also be implemented by other Members or different Member has been applying similar trade policy to other Members. So, as a third party, it can learn why a measure implemented by other Members is challenged to be WTO inconsistent or it can learn how to defend or justify such challenge and what would be the decision of the panel or Appellate Body on the matter. A third party can also submit its view on why such measure should be considered WTO consistent or WTO inconsistent with different basis than what has been submitted by either the Complainant(s) or Respondent or other third party as a systemic interest because, although it is not strictly binding jurisprudence, the panel report will be taken into account for similar disputes.

For example at the moment it begins to rise to the surface cases relating to export restrictions particularly to commodities of which production is dominated by certain member. In the past, most WTO cases are about import restrictions or restrictions to market access into another Member territory. What panels think about this issue will be interesting to many developing countries which may impose similar trade policy which at the moment has not been challenged.

It is undeniable that there is also disadvantage of becoming third parties. One of which is provided in Article 8.3 of the DSU stating panellist to a dispute cannot be from party to the dispute including third party (unless agreed otherwise by parties to the dispute). That is why there has been limited number of panellists from United

States, EU and now China since they are mostly becoming third party to any dispute in the WTO due to their systemic interest or other considerations.

By implementing the proposed solutions, namely increasing number of Indonesians trained in WTO Law and exposing the existing ones by being third party to a dispute, hopefully, in the future, Indonesia will have more trade lawyers and experts who in turn will increase Indonesia's capacity to identify potential complaints and to litigate them in the WTO Dispute Settlement System.

2. Cost to Litigate

The proceedings at the WTO Dispute Settlement Body itself are free of charge. No cost is imposed either on the complainant, respondent, or third parties in arbitration, Panels, or Appellate Body proceedings. In other words, there is no obligation for WTO Members to pay any extra cost to resort to the system, aside from its contribution to the WTO budget.¹⁹ The fee of Panellists, Appellate Body Members, arbiters or even experts is borne by the organization itself.

Nonetheless, many people think that WTO litigation is very costly. WTO litigation takes place at the WTO headquarter in Geneva, one of the most expensive cities in the world. However, this is not the

¹⁹ Pursuant to Article VII:4 of the WTO Agreement, each Member shall promptly contribute to the WTO its share in the expenses of the WTO in accordance with the financial regulations adopted by the General Council. The Contributions of Members to the WTO budget are established according to a formula based on their share of international trade in goods and services for the last three years for which data are available. In 2007, Indonesia contribution amounts to 0.8 per cent of the WTO total budget. The actual contribution of each member to the budget can be found at www.wto.org/english/thewto_e/secret_e/contrib07_e.htm.

most contributing factor of such high cost. In particular, the cost to litigate can be significantly high for developing countries to afford if the developing countries lack of its own legal resources, specifically trade experts or lawyers with capacity and experience in WTO dispute settlement, as explained in Part I: A of this paper. In such circumstance, the only viable option for them to litigate is to hire overseas counsel or law firms, such as those who are based in Geneva, Brussels or Washington, or ACWL as the cheaper option. However, hiring those overseas counsel or law firms might still incur very high cost which possibly reaches to the point beyond the expected benefits that can be achieved from the dispute. To illustrate the high litigation cost, below is the table of maximum fee charged by ACWL for each stage of WTO dispute settlement proceedings as of 19 November 2007. The fee is charged differently based on the category of the member. Indonesia is classified as a Category B Member. It should be noted that the fee is much cheaper than the fee charged by private law firms.

High litigation cost might be beyond the expected benefits to be achieved from a dispute when the measure to be challenged is only related to a certain sector which does not contribute significantly to the aggregate export of the country. In other words, due to the small export, they do not benefit largely from the economies of scale of the export. Meanwhile, the government still has many other priorities which require such big amount of money.

The solution to this problem is not straight forward; rather it depends on case by case basis. The decision lays much on the trade policy makers. Having said that the solution lies in the decision makers, the private sector can actually become a part of the solution to this problem. The relevant private sector may finance the expense of hiring legal services to lodge a complaint or to participate as a third party in a WTO dispute proceeding. Alternatively, the private sector, namely industry associations, private sector attorneys and consultants can engage in the pre-litigation which are to be litigated in Geneva. The US

Table 1:
Maximum charges for a complainant or respondent (in Swiss francs)

	Consultations	Panel Proceedings	Appellate Body Proceedings	TOTAL
Category B	35,721	107,892	63,909	207,522

Source: Decision 2007/7 Adopted by the Management Board on 19 November 2007

Table 2:
Maximum charges for a third party (in Swiss francs)

	Panel Proceedings	Appellate Body Proceedings	TOTAL
Category B	15,552	21,627	37,179

Source: Decision 2007/7 Adopted by the Management Board on 19 November 2007

and European Union have been practicing the second approach.²⁰ Of course, this very much depends on the interest of the relevant private sector, and might not always be a solution.

3. Problematic Decision-Making Mechanism

Decision-making mechanism posits formidable challenge for developing country Members, including Indonesia. The decision-making mechanism in this discussion refers to the process of deciding whether to lodge a complaint or to be a third party in a WTO dispute. This important process involves the stages of dispute resolution, namely, “naming, blaming and claiming.”²¹ Naming stage injuries refers to perceiving injuries. Blaming identifies the responsible actor of injuries suffered, and finally claiming refers to mobilization of resources to bring a legal claim or negotiate a favourable settlement.²²

The problem in Indonesia, as in many other developing countries, is the absence of effective mechanisms to perform those stages until reaching a final decision whether to litigate. The effective mechanisms must be able to identify promptly and prioritize claims. These mechanisms become more complicated because being able to identify a possible claim of violation will not necessarily make a country to lodge a complaint if there is not

enough confidence that such claim is worth pursuing.²³

In the decision-making mechanisms, many considerations are involved, such as high cost to litigate, expected remedies, trade relations, economic/investment consequences and political risks. In some cases, expected remedies can be the determining factor to lodge a complaint. For instance, Indonesian government lodged a complaint against the United States US measure banning the sales and distributions of clove cigarette which predominantly (if not all) is imported from Indonesia. It is reasonable to believe that the government took such decision because of the expected remedies of the ban removal. Prolonging the ban might cause Indonesia to suffer more economic disadvantages considering that the clove cigarette industry employs millions of workers and tobacco farmers.

The expected remedies might not necessarily be only from economic point of view. It can also be the remedies of bringing compliance of the violator state.²⁴ If the ban of clove cigarette is found to be in breach of WTO law, this can potentially bring reputational loss on the United States. Indonesia can expect that the potential reputational loss will make the US comply with WTO law in its future trade relations with Indonesia. A systemic consideration could also play a role in this case. Concern that the ban will be followed by other WTO Members if its WTO inconsistency is not proven is clearly eminent. Admittedly, these considerations might not come as a priority in the decision-making considerations.

²⁰ Gregory C. Shaffer, *Defending Interests: Public-Private Partnerships in WTO Litigation*, Washington, DC: The Brookings Institution Press, 2003, 6.

²¹ William Felstiner et al., *The Emergence and Transformation of Disputes: Naming, Blaming and Claiming*, 15 *Law & Soc’y Rev.* 631 (1980-1981).

²² Gregory Shaffer, *The Challenges of WTO Law: Strategies for Developing Country Adaptation*, 5 *World Trade Rev.* 177, 2006 [Shaffer].

²³ Shaffer, 178.

²⁴ Andrew T. Guzman, *How International Law Works: A Rational Choice Theory*, New York: Oxford University Press, 2008, p. 139.

Indonesia is still faced with the underlying issue of the absence of effective mechanisms to identify such potential claims, to consider factors in order to prioritize, and to mobilize resources. In Indonesia, bureaucratic challenge can be a major hurdle due to the absence of efficient inter-ministries coordination.

All of Indonesia's acts within the WTO are in the realm of foreign policy, including lodging a trade complaint. According to Article 13 of Law No. 37 of 1999 on Foreign Relations, any policy and action of the Government of Indonesia which are taken in relations with another state, international organization, and other subjects of international law in facing an international issue to achieve national goals is considered as foreign policy. The power to perform Indonesia's foreign policy is on the President,²⁵ and he can mandate such power to the Ministry of Foreign Affairs.²⁶

Although the Ministry of Foreign Affairs is also responsible to coordinate Indonesia's acts in international trade, it is important to realize that the Ministry does not necessarily have the required information to decide on what actions should be done.²⁷ Therefore, Article 5 of Law No. 24 of 2000 on International Agreement regulates that consultation and coordination of relevant state institutions or ministries with regards to negotiation of international agreements must occur. As such, any action with regards to the WTO will involve at least Ministry of Trade, Ministry of Foreign Affairs and Ministry of Finance. It will involve even more

ministries depending on the products covered by a particular complaint.²⁸

Unfortunately, Law No. 24 of 2000 does not specify the mechanism of consultation and coordination which shall be conducted for dispute settlements. It was only clarified few years later. Indonesian government realized about the importance of having in place an effective consultation and coordination mechanism with regards to international trade. Therefore, for practical implementation of Indonesia's foreign policy in dispute settlement, the government issued Decree of the President of the Republic of Indonesia No. 28 of 2005 on Establishment of National Team for International Trade Negotiations. The decree established a national team for international trade negotiations (*Tim Nasional PPI*).²⁹ The language of the decree suggests broad interpretation of establishing *Tim Nasional PPI*'s functions to include decision-making process to engage in the WTO Dispute Settlement System.³⁰

The adoption of such mechanism is expected to resolve two very crucial issues which are never addressed by the old mechanism, namely issues of inter-ministries coordination and time.

Inter-ministries coordination is crucial to ensure that the decision made to lodge a complaint is based on an integrated and

²⁵ Article 6 (1) Law No. 37 of 1999.

²⁶ Article 6 (2) Law No. 37 of 1999.

²⁷ Interview with an official at the Permanent Mission of Indonesia in Geneva.

²⁸ For example, if there is a complaint about fisheries products, then the Ministry of Seas and Marine Affairs should be involved in the decision-making process. If the complaint is about forestry products, then the Ministry of Forestry should be involved in the decision-making process.

²⁹ Decree of the President of the Republic of Indonesia No. 28 of 2005 on Establishment of National Team for International Trade Negotiations.

³⁰ The decision-making capacity of *Timnas PPI* is confirmed by an official at the Permanent Mission of Indonesia in Geneva.

coordinated national interest, especially in increasing its access to international market and boosting domestic economic growth. It seems that the government realized that such coordination was not effective with the old mechanism because there might be possibility that not all relevant ministries were involved in the decision-making process. Thus, the decree provides a detailed list of people who must be involved in the decision-making process.

To coordinate all relevant ministries in decision-making process is time consuming. Not to mention the deep rooted bureaucratic challenges within those ministries, for example search of people in charge or correspondence formalities. Meanwhile, litigating at the WTO Dispute Settlement System is time sensitive. First, time lost mean losses to national industries because they suffer from the existence of the disadvantageous measures. Second, from procedural point of view, in order to participate as a third party in a dispute, a country must respect the timetable set by a panel for a particular case.

To some extent, the decree might have addressed both issues. However, the practical reality is more complicated than what appears on paper. Even after the establishment of *Tim Nasional PPI*, those issues still arise. Coordinating a meeting and coordinating substantial concerns of each ministry are simple examples. When coordination issues arise, in turn it will make the decision-making process longer.

Improvement remains pertinent to accommodate swift coordination amongst the relevant ministries to expedite the decision making process. One of the ways is to adapt the successful mechanisms implemented by other countries and adjust in accordance with its own condition and needs. For example, Brazil is a developing country which has developed a successful mechanism, well-

known as the “three pillar” structure.³¹ The structure consists of a special WTO dispute settlement division in its capital, coordination on WTO legal matters between its Geneva mission and the dispute settlement division, and organized relations with private sector. With regard to the third pillar, the Brazilian government actively helped in facilitating the training young attorneys in Brazilian law firms in WTO dispute settlement. At the same time, this will help to solve the lack of legal resources in the government.

Apparently, Indonesia has started to adapt such structure, although it might work differently in practice. Regulation of Minister of Trade No. 31 of 2010 on Organization and Working Mechanism of Ministry of Trade created a special division to address WTO issues called Advocacy Service Centre for International Trade (ASCIT).³² ASCIT is a supporting element of the Ministry of Trade and is directly responsible to the Minister of Trade.

The Centre’s main functions, which are relevant to international trade, are quite broad, namely:

- a) analyzing, conducting legal review, and advocating in negotiation and/or conclusion of international trade agreements;
- b) analyzing, conducting legal review, and advocating implementation of agreements and handling of international trade disputes;
- c) Providing legal opinion on the draft of laws and regulations related to commitments in international trade agreements; and
- d) Preparing and analyzing compliance of national trade policy and trade partners

³¹ *Shaffer*, 181.

³² Article 945 of Regulation of Ministry of Trade No. 31 of 2010.

with commitments in international trade agreements.

The establishment of this centre can be a good start for Indonesia in creating more effective decision-making mechanisms process in dispute settlement and creating a career path for experienced WTO litigators. This is because ASCIT can be the forum where Indonesia can identify trade complaints and assess the possibility of successful complaints. With such identification and claims, as the preparatory work, it could be brought to consultation and coordination with the relevant ministries to set the priority of complaints, and finally to decide on

mobilizing the sources to lodge such complaints.

This mechanism is both more effective and efficient compared to the previous mechanism. In the past, when there was a potential claim arising and identified by the Indonesian Permanent Mission in Geneva, the Permanent Mission will consult with the Directorate General of Law and International Agreement of the Ministry of Foreign Affairs and Directorate of International Trade Cooperation or the Legal Bureau of the Ministry of Trade. Notably, the old mechanism appears to be sporadic in trying to address a potential claim. There is no specialized agency to identify and make legal review of potential complaints.

The newly established ASCIT³³ will be integrated into *Tim Nasional PPI*.³⁴ This might create even more efficient and effective decision-making mechanisms

for Indonesia's engagement with the WTO Dispute Settlement System. However, consistent improvement is still required to address the coordination issue and to maintain effective decision-making mechanisms.

4. Enforcement Mechanism of the panel and Appellate Body Reports

Another significant problem for developing country Members is the enforcement of panel and Appellate Body reports. There is no much use if a developing country Member won a case in the WTO Dispute Settlement System, but the decision is not implemented or cannot

be enforced to remedy the nullification or impairment.

WTO Members are very much aware of this problem because they learn from the past experiences during the regime of GATT 1947. During GATT 1947 era, every panel report must be adopted by consensus, including by the losing party.³⁵ The adoption itself does not necessarily mean the adopted report will be implemented by the losing party.

Furthermore, under GATT 1947, there was no mechanism available to address the winning party's claim if the losing party does not implement the ruling and recommendation as stated in the panel report. Therefore, under the WTO Dispute Settlement System, this matter is regulated in Article 21.5 of the DSU. Under Article 21.5 of the DSU, a Member could resort to the original panel if there is disagreement to the implementation of the recommendation and rulings of such dispute. The panel will then resolve the issue in an

³³ Established on 5 August 2010.

³⁴ Interview with an official at the Permanent Mission of Indonesia in Geneva.

³⁵ Article XXIII of the General Agreement on Tariffs and Trade 1947.

expedite manner. Although statistically there are only around 10% of all WTO cases that have implementation problem,³⁶ however, this unimplemented ruling and recommendation could discourage countries from resorting to the WTO Dispute Settlement System.

An example can be seen in the Korea-Paper case. The Panel found that Korea was acting inconsistently with the Anti-Dumping Agreement.³⁷ In the implementation stage of the Panel Report, Indonesia claimed that Korea has not brought the inconsistent measure into conformity with the Panel's recommendation and ruling. Indonesia resorted to Article 21.5 proceeding and again won the case.³⁸ However, even after the Panel ruling was issued, Indonesia consistently protested Korea's reluctance in applying the Panel ruling. It was only in 2010 when Korea anti-dumping authority finally revoked the anti-dumping measure on Indonesian paper based on its sunset review.

Although the WTO has no executive body to enforce the panel/AB report, under the DSU there is a tool called suspension of concession or retaliation measure to give pressure to the losing party to bring the inconsistent measure in conformity according to the panel ruling and recommendation. Under Article 22.6 of the DSU, retaliation shall be granted by reversed consensus. Retaliation, however, is not as simple as it might sound. Out of the 33 retaliation requests ever made

in the WTO, most of them were done by developed countries. Only Antigua, India, Brazil, Chile and Ecuador are developing countries which dare to retaliate against the giants (United States, European Community, and Canada).

The relatively low number of retaliation requests by developing country against a developed country can be analyzed. In particular, political and economical considerations play major role because developed countries normally have higher leverage in these areas. Politically, developing country seeks to maintain good relationship with developed countries because there are many potential benefits, i.e. assistance in various development sectors. Retaliating against a developed country will likely taint the good relationship. Economically, the developing countries are sometimes economically dependent on developed countries. Along with the current globalization, many developing countries are relying heavily on its export to maintain national economic growth. Retaliating against a developed country might trigger the imposition of some export restrictive measures against the developing country, which in turn potentially bring more severe economic consequences. Additionally, developed countries invest in very large amount in developing countries. Retaliatory action might cause the developed country to discourage further investment in the developing country. Not to mention that the retaliatory action of developing country might not affect the developed country because for the developed country, the trade with the developing country contributes insignificant amount to its economy. For those reasons, a developing country will be reluctant in taking retaliatory action

³⁶ To date there are 418 standard DSU complaints, but there are only 41 Complaints based on Article 21.5 of the DSU.

³⁷ *Korea-Anti-Dumping Duties on Imports of Certain Paper from Indonesia*, Report of the Panel, WT/DS312, 28 October 2005, para. 8.1.

³⁸ *Korea-Anti-Dumping Duties on Imports of Certain Paper from Indonesia: Recourse to Article 21.5 of the DSU by Indonesia*, Report of the Panel, WT/DS312, 28 September 2007, para. 7.1.

against the relevant developed country.

Those considerations might affect Indonesian government's decision not to request for retaliatory authorization against South Korea in the *Korea-Paper* case. Notably, South Korea is one Indonesia's major trading partner/investors and Indonesia had enjoyed quite significant trade balance surplus from the trade between the two countries.³⁹ Retaliating against South Korea would potentially hurt the trade relations or affect both the existing

and potential investment of South Korea in Indonesia.

As demonstrated above, the WTO Dispute Settlement System still cannot address the issue of effective enforcement of panel or AB reports. The ineffective enforcement mechanism poses as hurdle to developing countries like Indonesia to pursue its rights even if it won the case before panels or AB. In effect, this arise doubts on Indonesia whether to pursue such recourse which potentially become waste of resources.

Apparently, WTO members realize about this concern. In November 2001, ministers agreed to begin negotiations to improve and clarify the DSU. Specifically, the current retaliation system has been scrutinized by many members.⁴⁰ This system should be carefully re-engineered so that it can balance the interests of the

developing country Members. Further discussion on the ideal system is beyond the scope of this paper.

B. Future of Indonesia and the WTO Dispute Settlement System in the Proliferating RTA Regime

Regional Trade Agreements (RTA)'s development, including Free Trade Agreements, can be traced back to 1958 when the European Economic Community was created as one of the early RTAs. Since then, there have been waves of regionalism which significantly increase the number of RTAs. One lesson that can be learned from the history of regionalism is, "growth in regionalism appears to go hand in hand with developments in multilateralism."⁴¹ In fact this can be witnessed nowadays. The negotiation of Doha Development Agenda has been ongoing for 9 years since the Round's commencement in the Fourth Ministerial Conference in November 2001 in Doha, Qatar. However, the multilateral negotiations ended up in deadlock, and WTO members simply cannot expect any significant improvement to the situation. Consequently, the deadlock serves as one of the triggers of RTAs proliferation amongst WTO Members. Now, there are over 350 regional trade agreements in existence, each with different content and different signatories.⁴²

Indonesia have also been engaging into numerous bilateral and RTAs. Currently, Indonesia has concluded at least

³⁹ Data obtained from the statistic of 2005-2009 Trade Balance between Indonesia and South Korea provided by the Ministry of Trade of the Republic of Indonesia, http://www.depdag.go.id/statistik_neraca_perdagangan_dengan_negara_mitra_dagang/ (November 24, 2010).

⁴⁰ Peter Van den Bossche, "The Doha Development Round Negotiations on the Dispute Settlement Understanding, presented at WTO Conference New Agendas in the 21st Century, Taipei, 28-29 November 2003.

⁴¹ Richard Baldwin and Patrick Low, ed., *Multilateralizing Regionalism: Challenges for the Global Trading System*, (New York: Cambridge University Press, 2009), 27 [Baldwin and Low].

⁴² *Ibid.*, 1.

eight RTAs, and more RTAs are still being proposed or under consideration.⁴³

Similar to most RTAs, Indonesia's RTAs cover many trade areas which are regulated under WTO, with variations. Each RTA has its own dispute settlement provisions, and some of the RTAs' dispute settlement mechanisms are similar to that of the WTO Dispute Settlement System.

One might rightly question the possibility of overlaps of obligations contained in RTA and WTO Agreements, which in consequence might result into procedural overlap.⁴⁴ For instance, Indonesia challenges another country under ASEAN Free Trade Agreement (AFTA) and before the WTO for a violation of an obligation contained in both agreements. This issue has been addressed by the WTO in *Mexico-Soft Drinks*. In that case, the US brought a national treatment claim to the WTO. However, at the same time, US investors in Mexico brought a similar treatment claim before a NAFTA Tribunal. Finally, the Appellate Body [AB] did not find any issue for Panel to exercise its jurisdiction although there was another NAFTA Tribunal addressing the same issue. In fact, the AB stated that based on Article 3.2 and 19.2 of the DSU, Panel seemed not to be in a position to choose whether to exercise its jurisdiction on a complaint presented by a Member even when there is another tribunal assessing a similar issue.⁴⁵

The clarification made by the AB in *Mexico-Soft Drinks* might indicate that procedural overlap is certainly not a

very critical issue. Yet, it may potentially lead to forum shopping. Realizing about this potential, in some RTAs, there are 'forum exclusion clauses' which oblige the complainant to submit a dispute arising from the violation of the RTA's provisions to the WTO when similar obligation exists in WTO Agreements.⁴⁶ However, this does not exist in most of Indonesia's RTAs. Analyzing whether this is good or bad is beyond the scope of this paper. Instead, this paper will analyze the consequence of this option to Indonesia's participation in the WTO Dispute Settlement System.

In the event there is a violation against Indonesia by a particular obligation of a WTO member who is also a member of a RTA which Indonesia is a member to, Indonesia has options to lodge a complaint in either one of the dispute settlement systems or to lodge a complaint in both dispute settlement systems.

As to the choice which Indonesia will make, it depends on cost and benefit analysis on the strength of the case in the relevant agreement (either WTO or RTA) and effectiveness of enforcement mechanism. First, the strength of case which can be made depends on the provisions of each agreement. It should be noted as well that Article XXIV GATT 1994 provides possibility of raising exception defence towards obligations under the Agreement when there exists RTA. In the event such provision exists in the relevant WTO Agreement, Indonesia might not resort to the WTO Dispute Settlement System because most likely it will lose its case. Second, effectiveness of enforcement mechanism can be a determining factor. This will vary on a case by case basis because of the different dispute settlement mechanisms provided by each RTA. For example, ASEAN

⁴³ The calculation is based on data gathered from the website of Asian Development Bank in November 2010, www.aric.adb.org.

⁴⁴ *Baldwin and Low*, 379.

⁴⁵ *Mexico – Tax Measures on Soft Drinks and Other Beverages*, The United States and Mexico, WT/DS308/AB/R, 6 March 2006, para. 53.

⁴⁶ Article 189.4 (c) of the EC-Chile FTA, Article 8.4 and 10.7.2 of the Republic of Korea-US FTA.

has its own dispute settlement mechanism which is very similar to that of the WTO DSU. However, the little is known about the effectiveness of this mechanism because no case has been lodged. On the other hand, the WTO Dispute Settlement System also has weakness of enforcement in some particular circumstances as explained above. Therefore, in such circumstance, Indonesia might just have to choose the WTO.

In the future, if RTAs' dispute resolution systems are more reliable, there is possibility of Indonesia resorting to such system in the event of a violation of obligations contained in both an RTA and WTO Agreements. However, it is too early to predict this because some of Indonesia's RTAs are not even in force yet. It can be concluded that temporarily, Indonesia's participation in the WTO Dispute Settlement System will not be much affected by the proliferating RTAs.

C. Conclusion

Indonesia has much homework if it wants to be more active using the WTO Dispute Settlement System to secure its trading rights under the WTO. All issues set forth in this paper are not without any solution. Provided that the government sees the importance of WTO litigations for our national interests, optimism on the future of Indonesia and WTO Dispute Settlement System should be built. As stated in the beginning of this paper, that international agreements are not worth very much if it obligations cannot be enforced. Enforcement through litigations should not be considered as finding enemies: instead all WTO Members are aware that this is part of game. After all, the WTO is a rule-based system and its major achievement is to have an effective dispute settlement mechanism.

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CWTS UGM and Its WTO Chairs Program (WCP)

The Center for World Trade Studies at Universitas Gadjah Mada (CWTS UGM) was initiated by the consent and concerns among policy makers, practitioners in international trade, and GMU academicians on trends of unequal exchanges resulted from the current practices in international trade. As part of the so-called economic globalization processes and phenomenon, world trade is an arena where asymmetrical relations in trade among nations will eventually implicate to other aspects, such as politics, law, socio-cultural life and various public sectors such as education, health, public services, food and agriculture, technology, etc. Despite its main tasks to harmonize international trade and implement non-discriminatory principles, World Trade Organization (WTO) is an indivisible institution dealing with those unequal exchanges. As many would believe, WTO itself is indeed identical to those asymmetrical exchanges.

It is in such a context that the Center is designed and developed. I.e. critically investigate a variety of trends in global trade which are in turn constructive as policy inputs and recommendation of action for government officials, the public, and other private practitioners who are ready for and anticipate for issues, challenges as well as opportunities in global trade. CWTS GMU is therefore intended to be an independent research and academic institute accountable for its objective critical studies on world trade and other related issues oriented towards scientific enterprise and policy advocacy.

The Center accordingly offers the following vision, missions, objective as part of our endeavors towards the above-mentioned intentions.

- Vision** : A center of world trade studies and research dedicated towards upgrading national competitiveness
- Missions** : developing a research center for the studies of world trade dynamics and WTO and an institute for training and consultancy in world trade dynamics and WTO oriented towards upgrading national competitiveness
- Objectives** : to identify and critically study the procedures, policies and problematiques of world trade and WTO, to analyze and assess future projection on international trade, to analyze trade-related aspects in technology development, product standardization and patent to upgrade competitiveness of Indonesia's product and services, to conduct consultation and training for government officials and private practitioners in international trade, to devise trade negotiators with concepts and substances in international trade fora and WTO, to improve educational quality by integrating research outcomes/findings with the existing learning and teaching activities, and to cooperate and build networks with relevant and related institutions/institutes in world trade and WTO

The Center covers the following research areas as it expects synergies of existing expertise among relevant faculties at UGM:

Cluster on World Trade Dynamics

The cluster sees to dynamics of multi-level and dimensions of world trade phenomena which include topics on:

- Regional Trade: AFTA, APEC, ASEM
- Bilateral Trade
- Trade in Goods and Services

Cluster on WTO

The cluster is specifically designed in parallel with the institutional and actual development of WTO arrangement which covers issues on:

- Trade in Goods (*GATT/General Agreement on Tariffs and Trade*)
- Trade in Services (*GATS/General Agreement on Trade in Services*)
- Intellectual Property Rights (*TRIPS/Trade-Related Intellectual Property Rights*)
- Foreign Investment (*TRIMS/Trade-Related Investment Measures*)
- Agriculture (*AoA/Agreement on Agriculture*)
- Dispute Settlement (*Dispute Settlement Mechanism*)
- Trade Policy Review (*Trade Policy Review Mechanism*)

Cluster on Technology for Competitiveness

The cluster expects the inclusion issues related to technicalities and technological dimension of world trade arrangement that includes subjects on:

- Technology Development
- Product Standardization
- Patents

WTO Chairs Programme (WCP) 2010 – 2013

The Center for World Trade Studies Of Universitas Gadjah Mada (CWTS UGM) has been selected to host the WTO Chairs Programme which is a programme with the objective of strengthening knowledge and understanding of the trading system among academics, citizens and policy makers in developing countries by stimulating teaching, research and public debate on international trade and trade cooperation in universities and research institutions. The title of the project is ***“Capacity Building for the Development of Multi-Disciplinary Study and Research on WTO and other International Trade-related Issues in Indonesia/Southeast Asia”***. The program will be conducted in 4 (four) years.

WCP 2010 Design and Outputs

In line with the objectives, expected outputs and scheduled timeline of the WCP/UGM Indonesia, the 2010 program are focused more on the “curriculum development” and “research” activities, with the “events/outreach” activities served as “derivatives” ready to be kicked off in the 2011 program, and then to be fully implemented in the 2012-2013 programs.

Curriculum development activities are focused on efforts to integrate existing academic resources into the newly-planned and proposed multidisciplinary graduate program in trade studies, i.e. the Masters in International Trade Studies (MITS) Program at UGM. Preparatory stages (regular meetings and Focused Group Discussions), setting up curriculum stages (workshops on curriculum enrichment),

and program institutionalization stages (contacts and arrangement) are conducted to implement the WCP/UGM Indonesia curriculum development agenda.

The efforts are effective as they result in concrete outputs useful in establishing and initiating the MITS Program at UGM. A draft proposal of the establishment of MITS Program at UGM is all set and devised with both substantive and administrative outputs. Substantively, it has a prototype or model of graduate program with its curriculum structure and content, plus an academic community dedicated towards developing the program. Administratively, it has produced faculties' consortium, administrative collaboration and prospective networks ready to support the realization of the program.

Likewise, research activities are emphasized on efforts to consolidate CWTS UGM mission in connecting research agenda to the real world, i.e. public decision-making domains, policy formulation and implementation arena of trade. The need to attach research activities with its surrounding practical and empirical realms is at the WCP/UGM Indonesia top priority. Implementation of this particular area include activities of data collection and cataloguing, regular discussions and seminars, publication of research products, policy research grants, and setting up supporting physical facility.

The endeavors are quite functioning as they bring about tangible outputs in creating an atmosphere and framework of linking research and policy realms on trade-related issues. The outputs include an integrated research, database and learning facility (closed-reserved library, web-based information management

and a set of multimedia research and learning activity gizmo), a mock up of Indonesia's trade catalogue, roundtable forum for policy research clusters (legal cluster, political economy cluster, policy cluster, technical cluster), a journal of world trade studies (JWTs), monograph series (on legal, political economy, policy and technical trade-related issues), and research forum (weekly discussions forum and monthly seminar).

As previously explicated, the 2010 WCP/UGM Indonesia "events and outreach" program focused on initiating by-product activities centered on the organization of the so-called Short Course Series in International Trade (SCSIT) and a trade forum generated from prospective networks in MITS (Masters in International Trade Studies) Program and SCSIT (Short Course Series in International Trade) Program. Completion of the 1st Seri of SCSIT reflects the efficacy of this particular program despite its derivative nature in the 2010 WCP/UGM Indonesia program.

Program Design and Processes

Curriculum Development

In terms of building UGM's capacity in academic, teaching and other pedagogical functions on trade-related issues, WCP/UGM Indonesia is aimed at strengthening the Centre for World Trade Studies (CWTS) UGM missions in developing an integrated, multi-disciplinary study on trade which is built on the existing academic, teaching and pedagogical resources available at 4 (four) major faculties and/or departments, i.e. Faculty of Economics and Business, Faculty of Law, Department of

International Relations (at the Faculty of Social and Political Sciences), and Faculty of Agriculture. The WCP/UGM Indonesia seeks particularly to develop a graduate-level academic degree program on trade studies in which existing programs in the 4 (four) faculties/departments shall be integrated. Activities planned and carried out under the WCP/UGM Indonesia are therefore designed to facilitate the integration processes of those existing resources.

The subsequent section elucidates activities undertaken in the area of curriculum development as they are evolved in terms of form, mode and time frame (from the originally planned and designed activities proposed previously in the WCP/UGM Indonesia proposal/application). Activities undertaken in this particular area of program are categorized under the following three main fields (courses preparatory scheme, setting up the curriculum, and graduate program institutionalization). The following part explicates activities for each of the three fields:

A. Courses Preparatory Scheme

The scheme is designed to support and facilitate faculty members at the four major faculties and/or departments in developing teaching materials and methodology as to fit the need of an integrated and multi-disciplinary graduate study courses on trade-related issues. They are responsible in designing courses with relevant topics, methods and readings in conjunction with the objectives of the graduate study program, i.e. devising students with the knowledge and conceptual framework of multilateral trade regime (especially under WTO agreements) and regional, bilateral

trade relations and dynamics as well as with practical skills needed to coop and be exposed to the dynamics of trade relations. Activities included in the scheme are:

B. Regular Coordination Meetings

These monthly meetings are conducted in accordance with the CWTS UGM weekly and bi-weekly meeting agenda and schedule. The meetings took a consecutive 9 (nine) months effective duration of time, beginning in April 2010. In the first three months (#1 to #3), the meetings focused on gathering information and data on existing courses offered at the four faculties/departments. The meetings discussed in terms of administrative and technical aspects, academic framework, financial and human resource management as to whether they are agreed to be integrated in the planned graduate study program.

At the end of this part, we identified the following existing courses and faculty members to be elaborated and developed further under WCP/UGM Indonesia program:

Faculty of Economics and Business

- International Economics
- International Business
- International Finance
- ASEAN Economy
- Indonesian Economy

Faculty of Social and Political Sciences
(Department of International Relations)

- International Organization
- International Political Economy/Global Political Economy
- Global Value Chain

- Politics of International Investment and Trade
- Diplomacy and Negotiation

Faculty of Law

- International Trade Law
- International Commercial Contract
- International Economic Law
- International Commercial Law
- WTO Agreements
- Investment Law

Faculty of Agriculture (Department of Socio-economics)

- Agricultural Economics
- International Economics
- Agro-business Management
- Agricultural Marketing
- Agricultural Development

In the second part (month/meeting #4 to #6), the focus of the meetings are to build on lists of existing courses possible alternatives and options as to conform with parallel discussions and workshops in setting up new curriculum for the planned graduate study program. The effort is expected to groom embryo of courses to then be advanced in the context of the newly-set up curriculum. A set of courses is subsequently identified as follows:

Core Courses

- International Trade Relations
- International Trade Negotiation
- International Trade Law
- International Trade and Economics
- Trade and Sectoral Policy
- Indonesian Economy

Tentative Additional Core Courses

Economics: Micro and Macro
International Business/Commercial Contract

Elective Courses

- Multilateral Trade
- Regionalism in Trade
- International Finance
- Global Supply Chain Management
- Global Value Chain
- Environment and Trade
- International Competitiveness Analysis
- Business Economics and Forecasting
- Business Diplomacy
- International Trade Diplomacy
- Trade Policy and Strategy
- WTO Dispute Settlement Mechanism
- Trade and Intellectual Property Rights
- International Quality Standard

In the last part (month/meeting #7 to #9), the meetings agreed to work on particular areas or topics to be developed as courses for the planned graduate study program. The first group of topics to be discussed is the core courses previously pointed out in the preceding section. The second group is the elective courses identified in the 2nd part of the regular coordination meeting. During the last part of the meeting, both groups of topics are elaborated in terms of their conformity to the designed curriculum of the graduate program, especially in the context of academic competency intend to be achieved by the program, i.e. comprehension of trade relations and cooperation with its more and more complex dimensions, acquaintance in trade negotiation and diplomacy, analytical capacity and understanding of legal texts in international trade practices,

and of trade policy orientation among different actors in international trade, and of sectoral policy with significant influence to trade.

The first group of topics is then to be elaborated in the ensuing activity of Focused Group Discussions, while the second one is to be assigned to individual instructor of the course to be developed in the form of course syllabuses.

C. Focused Group Discussions (FGDs)

Four consecutive FGDs are conducted in line with the intended objective to work out details of designing the core courses of the graduate program:

- The 1st FGD (October 7th 2010) examines a draft of syllabus prepared by Professor Mohammad Hawin of Faculty of Law UGM for the course of International Trade Law. Participants gave comments and inputs on both the substance and learning methods proposed in the draft syllabus. Learning materials discussed in the FGD include:
 - » Overview of WTO Agreements
 - » GATT (General Agreement on Tariffs and Trade) Principles
 - » GATT and Developing Countries
 - » Dumping and Anti-Dumping Duties
 - » Subsidies and Countervailing Duties
 - » Safeguards
 - » GATS (General Agreement on Trade in Services)
 - » Intellectual Property Rights (IPR) in WTO (TRIPs Agreement)
 - » Investment in WTO (TRIMs Agreement)
 - » Dispute Settlement in WTO
 - » Regional (Trade) Arrangements

- » WTO and Environmental Issues (TBT Agreement)

Learning methods elaborated in the FGD include:

- » Lecturing, and Question and Answer Sessions
- » Video-conferencing Sessions
- » Case Study Analysis
- » Group Discussion

- The 2nd FGD (October 14th 2010) examines draft of syllabuses prepared by Dr. Tri Widodo of Faculty of Economics and Business UGM and Professor Dwidjono Hadi Darwanto of Faculty of Agriculture UGM for the courses of “International Trade and Economics” and of “Trade and Sectoral Policy” respectively. Participants gave comments and inputs on both the substance and learning methods proposed in the draft syllabuses. Learning materials discussed for the course of International Trade and Economics are:
 - » Classical Theory of Trade
 - » Extensions and Tests of the Theory
 - » Neo-classical Trade Theory
 - » Gains from Trade in Neo-classical Model
 - » Basis for Trade: Factor Endowments and The H-O Model
 - » Empirical Test of the H-O Model
 - » Offer Curve and Terms of Trade
 - » Post H-O Theories and Intra-Industry Trade
 - » Economic Growth and International Trade
 - » International Factor Movements
 - » Instruments and Arguments of Trade Policy

- » Trade Policy in Developing and Advanced Countries
- » Economic Integration

Learning materials discussed for the course of Trade and Sectoral Policy include:

- » International Trade Theory
- » Structure of Trade
- » Empirical Analysis on International Trade
- » International Trade Policy
- » Domestic Distortions
- » Trade Liberalization
- » Financial Aspects of Trade

Both courses of “International Trade and Economics” and “Trade and Sectoral Policy” offer the following learning methods which are discussed during the FGD:

- » Lecturing and Discussion Sessions
- » Case Study Analysis
- » Simulations and Modelling

- The 3rd FGD (October 19th 2010) scrutinizes draft of syllabuses prepared by Professor Mudrajad Kuncoro of Faculty of Economics and Business UGM and Dr. Nanang Pamuji Mugasejati of Faculty of Social and Political Sciences UGM for the courses of “Indonesian Economy” and of “International Trade Negotiation” respectively. Participants gave comments and inputs on both the substance and learning methods proposed in the draft syllabuses. Learning materials discussed for the course of Indonesian Economy include:

- » Indonesia’s Business Environment
- » Indonesia Economic System
- » Macro-economics Environment

- » Exchange Rate and The 1997-8 Monetary and Economic Crisis
- » Oil Price and Its Influence to the Economy
- » Policy Mix: Fiscal and Monetary Policies
- » World Recession and Financial Crisis
- » Energy and Food Security
- » ASEAN Economic Community
- » Policy Stimulants in the Global Crisis Era
- » Investment Reform
- » Employment Issues
- » Industry and Real Economic Sector
- » Modern versus Traditional Markets
- » Regional Autonomy and Local Development

Learning materials discussed for the course of International Trade Negotiation are:

- » Basic Principles and Concepts in Trade Negotiation
- » Interests and Power in Trade Negotiation
- » Knowledge in Trade Negotiation
- » International Trade Regime Negotiation
- » Trade Dispute Negotiation
- » Multi-party Negotiation
- » Multi-stakeholders Dialogue
- » Tactics and Strategy in Trade Negotiation

Both courses of “Indonesian Economy” and “International Trade Negotiation” proposed the following learning methods which are discussed during the FGD:

- » Lecturing
- » Movie Presentation/Screening and Discussion

- » Class Discussion Sessions
- » Case Study Analysis
- » Simulation
- The 4th FGD (October 21st 2010) examines a draft of syllabus prepared by Professor Mohammad Mohtar Mas'ood of Faculty of Social and Political Sciences UGM for the course of International Trade Relations. Participants gave comments and inputs on both the substance and learning methods proposed in the draft syllabus. Learning materials discussed for the course of International Trade Relations are:
 - » History of Modern Trade Relations
 - » Multilateral Trade Relations
 - » Regional Arrangements in Trade
 - » Bilateral Trade Relations
 - » Trade Diplomacy
 - » Political Economy of Trade
 - » Trade under WTO Agreements

The following learning methods are discussed during the FGD on the course of International Trade Relations:

- » Lecturing
- » Movie Presentation/Screening and Discussion
- » Class Discussion Sessions
- » Case Study Analysis
- » Fieldworks and simulation

D. Setting Up the Curriculum

Parallel to the course preparatory activities, WCP/UGM Indonesia conducted two series of workshops designed to set up the curriculum of the graduate study program. The following section illustrates in details the implementation of the two workshops:

a. The 1st Workshop

The activity which was held on February 10th 2010 marked the commencement of the WCP/UGM Indonesia. It is also therefore intended to introduce the program to general public audience interested in issues of trade. Participants of the workshop –representing diverse groups of trade-related stakeholders— are invited to provide inputs and comments on the plan of opening of a graduate study program in trade.

Objectives:

- Presenting an initiative to establish a graduate study program in trade at UGM with a multi-disciplinary perspective in accordance to the CWTS UGM mission of building an academic institution constructive to the nation's competitiveness
- Exploring inputs, contribution and participation of various trade-related stakeholders in designing the graduate program curriculum which is correspond to their respective needs in coping with trade dynamics

Participants:

- Resource persons –the WCP/UGM Indonesia team members— presented the background of the initiative, the contents of the proposed curriculum, and the institutional framework of the graduate study program
 - » Presentation of the Background on the Program by Dr. Jangkung Handoyo Mulyo (Coordinator for Academic Activities of the WCP/UGM Indonesia)
 - » Presentation of the Contents of the Curriculum by Mr. Riza Noer

- Arfani (Chair-holder WCP/UGM Indonesia) on political economic aspect of trade, Professor Masyhuri (Responsible person of the WCP/UGM Indonesia) on technical aspect of trade, and Ms. Dina W. Kariodimedjo (Coordinator for Research Activities of the WCP/UGM Indonesia) on legal aspect of trade.
- » Presentation of the Institutional Framework of the Graduate Study Program by Professor Masyhuri.
 - Discussants have roots in different kinds of area of expertise and backgrounds, ranging from academia, researchers, public officials, business practitioners to non-governmental activists.

Results:

- Understanding of the core contents of the graduate study program curriculum which shall include multi-dimensional aspects of trade, i.e. political economic, socio-cultural, legal as well as technical.
- Recognizing the need to institutionalize the program under a multi-disciplinary school to ensure its distinct competency and curriculum contents which are differed from the existing mono-disciplinary study programs in several faculties at UGM

b. The 2nd Workshop

The 2nd workshop was held on August 24th 2010 following and as a recap of the 1st and the first half of the 2nd parts of the coordination meeting activities. More and wider audience are invited to obtain supplementary inputs and comments on

the design of the curriculum and of the program framework.

Objectives:

- Outlining and concluding the final draft of the curriculum design and the structure and management of the graduate study program in trade
- Recapitulating necessities, requirements and intentions of various trade-related stakeholders as to integrate them to the final draft of the curriculum design and program structure

Participants:

- Resource persons presented the Background (by Professor Mayshuri), Proposal of Curriculum Content and Design (by Professor Mudrajad Kuncoro of Faculty of Economics and Business UGM and Dr. Jangkung Handoyo Mulyo of Faculty of Agriculture UGM), and Follow-Up Activities of Short Course Series on Trade (by Ms. Irna Nurhayati of Faculty of Law UGM)
- Discussants include UGM senior officials (Vice Rector for Administrative and Financial Affairs representing UGM Rector and representative of UGM Graduate School), government officials/representatives of the Indonesian Ministry of Trade, Ministry of Manpower and Transmigration, Ministry of Foreign Affairs, Ministry of National Education (Directorate General of Higher Education), Local Bureau of Industry and Trade for Yogyakarta Area, Local Office of Planning for Yogyakarta Area, academia and researchers from UGM and neighbouring universities with different academic backgrounds (economics, education, law, agriculture, socio-

humanistic sciences, engineering and political science), prospective students and non-governmental activists.

Results/Recommendations:

- Brand of the Program
The workshop identified 4 (four) alternatives of names of the graduate program to be discussed further and chosen/decided prior to its opening, i.e. (in order of preferences):
 - » **Master of International Trade Studies (MITS)**
 - » **Master of International Trade and Economic Relations (MITER)**
 - » Master of International Trade Policy & Economic Relations (MITPER)
 - » Master of International Trade Relations (MITR)
- Curriculum Contents
The workshop proposed the following *raison d’etre*, structure and content of the curriculum:
The graduate program shall incorporate the following competencies in various

trade-related aspects, dimensions and fields in order to be distinct from the existing academic programs in economics, international relations, law and agricultural socio-economics:

1. Competence in trade negotiation and diplomacy
2. Comprehension of bilateral, regional and international trade relations and organizations
3. Analytical capability in interpreting legal texts in international trade practices (especially under WTO Laws/Agreements and business contract practices)
4. Proficiency in economic policy analysis, both in domestic and international trade-related policy and economic mechanism
5. Comprehension and skills on international quality standardization, both in goods and services

The structure and content of the proposed curriculum is as follows:

Core Courses

Title of the Course	Number of Credits	Semester
1. International Trade Relations	3 (three)	I
2. International Trade Negotiation	3 (three)	I
3. International Trade Law	3 (three)	I
4. International Trade and Economics	3 (three)	I
5. Trade and Sectoral Policy	3 (three)	I
6. Indonesian Economy	3 (three)	I

Tentative Additional Core Courses

Title of the Course	Number of Credits	Semester
7. Economics: Micro and Macro	3 (three)	I
8. International Business/Commercial Contract	3 (three)	I

Total Credits for Core Courses: 18

Elective Courses

Title of the Course	Number of Credits	Semester
9. Multilateral Trade	2 (two) or 3 (three)	II or III
10. Regionalism in Trade	2 (two) or 3 (three)	II or III
11. International Finance	2 (two) or 3 (three)	II or III
12. Global Supply Chain Management	2 (two) or 3 (three)	II or III
13. Global Value Chain	2 (two) or 3 (three)	II or III
14. Environment and Trade	2 (two) or 3 (three)	II or III
15. International Competitiveness Analysis	2 (two) or 3 (three)	II or III
16. Business Economics and Forecasting	2 (two) or 3 (three)	II or III
17. Business Diplomacy	2 (two) or 3 (three)	II or III
18. International Trade Diplomacy	2 (two) or 3 (three)	II or III
19. Trade Policy and Strategy	2 (two) or 3 (three)	II or III
20. WTO Dispute Settlement Mechanism	2 (two) or 3 (three)	II or III
21. Trade and Intellectual Property Rights	2 (two) or 3 (three)	II or III
22. International Quality Standard	2 (two) or 3 (three)	II or III
23. Internship	2 (two) or 3 (three)	II or III

Total Credits to be Taken for Elective Courses: 24

Thesis

	Number of Credits	Semester
24. Thesis	8 (eight)	IV

Total Credits For Masters Degree: 50

E. Graduate Program Institutionalization

Activities undertaken for this particular program include regular contacts and arrangement with prospective partners for the establishment of the graduate study program. The CWTS UGM serves as the focal point as to which other prospective partners shall refer to in order to set up and institutionalize the program. The following part presents efforts and results of the activities:

a. Contacts

Key elements of the initiative of the graduate study program consist of Deans and Offices of the Dean and/or Heads of Departments at 4 (four) Faculties/Departments:

1. Dean (Office of the Dean) of Faculty of Economics and Business UGM, c/o Head of Department of Economics
2. Dean (Office of the Dean) of Faculty of Social and Political Sciences, c/o Head of Department of International Relations
3. Dean (Office of the Dean) of Faculty of Law
4. Dean (Office of the Dean) of Faculty of Agriculture, c/o Head of Department of Agricultural Socio-Economics

The WCP/UGM Indonesia held occasionally meetings and/or audiences with these four key elements during the 2010 Program Implementation of WCP resulting in understanding and/or agreement in support of the establishment of the graduate program. The support comprises academic and administrative aspects, but not financial one as they emphasized in

self-sufficiency and sustainability of the proposed program.

Other significant elements need to be in conformity with the initiative are Director and Office of Graduate School (OGS), Rector and Rector Offices (including Office of Senior Vice Rector, Office of International Affairs/OIA), and the Academic Senate at UGM. In 2010, the WCP/UGM Indonesia had arranged scores of audiences with Director of OGS, Rector and Senior Vice-Rector for Academic and Administrative Affairs, but not with the Academic Senate.

The audiences with OGS Director, Senior-Vice Rectors, and Rector of UGM have resulted in institutional support for the establishment of the program. In the case of OGS, the Director has offered the program to be administered under the OGS Management paving a way to multi-disciplinary nature of the graduate program. Although Rector and Senior Vice-Rectors have not yet given a written endorsement concerning the program, they have underlined the need to the opening of a graduate program specifically designed to address trade-related issues as called for by the then member of UGM Board of Trustees, Dr. Makarim Wibisono (UGM alumnus and former Indonesian Ambassador to WTO).

As for the Academic Senate, the WCP/UGM Indonesia has not yet arranged any meeting or audience in the year of 2010. The reason is that the WCP/UGM Indonesia need to prepare first official documentation and application of the establishment of the graduate program which will only begin in the year of 2011. The Academic Senate is the

formal or official agency who has the authority and final decision of whether a proposal of a graduate program could be granted a formal permission to be opened.

b. Arrangement

Based on the recommendation of OGS UGM and series of coordination meetings on how to proceed with the initiative in the post-workshop, the proposed graduate study program could be institutionalized in the following stages:

1st Stage: Preparation of Formal Application Documentation, need to have official/written endorsements from the four Deans and Office of the Dean and/or Head of Departments, Director of OGS, and Rector.

2nd Stage: Unofficial Publication of the Program, including Soft-Launching of the Program by Introduction of “Short Course Series in International Trade (SCSIT)”

3rd Stage: Alternative Management of the Program by Putting It Temporary under Existing Programs available at the OGS Administration, among others: Graduate Program in Policy Studies, Masters Program in Public Administration, or Graduate Program in Geography; or under Existing Programs available at one of the 4 Key Faculties, among others: Graduate Program in International Relations, Masters in Agri-business Management, Graduate Program in Commercial Law or Graduate Program in Development Economics.

Final Stage: Official Opening of the Graduate Program upon the Acceptance and Formal Permission from the Academic Senate (targeted under the 2012 WCP/UGM Indonesia work plan)

Research

In terms of building UGM’s research capacity on trade-related issues, WCP/UGM Indonesia is aimed at consolidating the CWTS UGM mission in connecting research findings, results and outcomes to the real world, i.e. public decision-making domains, policy formulation and implementation arena of trade. The need to consolidate research activities with its surrounding practical and empirical realms is at the WCP/UGM Indonesia most-prioritized area. Current practices in trade –as for example explicated by the grievances of Indonesia’s permanent mission to the WTO in Geneva on how intricate their mission is in dealing with more and more complicated trade negotiation processes— reflect an urgent necessity to begin an endeavour towards an integrated, multi-disciplinary research cluster. The WCP/UGM Indonesia therefore initiates activities to develop the cluster.

Activities are conducted under 5 (five) areas of designation, i.e. Database Collection and Cataloguing, Regular Discussions and Seminars, Publication, Policy Research Grants, and Supporting Physical Facility. Each of the area reflects strategic steps to build the CWTS UGM capacity in becoming the focal point of the research cluster development. As a focal point, CWTS UGM is expected to be “one stop shopping centre” where scholars, students, researchers and any other interested individuals of trade-related

issues could gather and disseminate data “all-in-one place”.

The 1st Area (Database Collection and Cataloguing) is projected towards setting up a systematic data collection and presentation for various types and forms of facts, information, data, figures, opinions and outlook on trade. It then is categorized under 3 (three) main forms, i.e. (1) Numerical, Statistical Data Collection, (2) Articles, Papers, Research Reports Documentation, and (3) Media Coverage.

The 2nd Area (Regular Discussions and Seminars) aims at complementing the database collection tasks, i.e. in ensuring the CWTS UGM's roles not only in data gathering, collection, systematization, but also in data dissemination as well as information and opinion-sharing centre among relevant stakeholders of trade. Forms of discussions and seminars fora are conducted for the 2010 WCP/UGM Indonesia.

The 3rd Area (Publication) is aimed at enlarging and widening public audience of research findings and other data dissemination activities in a more academic manner. Types of publication include publication of an academic journal, publication series of monographs, publication of research reports and/or books, and publication of an Indonesia's trade catalogue.

The 4th Area (Grants for Policy Research) is designed to set up clusters of research community based on major fields in trade-related studies, i.e. Cluster on Legal Aspect of Trade, Cluster on Political Economy of Trade, Cluster on Trade Policy and Dynamics, and Cluster on Technical Aspect in Trade. Each of the clusters develops research that is oriented towards non-academic audience both in

terms of focus of the study, methodology and findings recommendation.

The 5th Area (Supporting Physical Facility) is designed to equip research activities with technologically adept facility as to facilitate data storage and retrieval functions, information dissemination purposes, and knowledge and opinion-sharing among academia, scholars, students, researchers, and other interested individuals of trade-related study.

The next section elucidates each of the five areas in these particular research activities:

A. Database Collection and Cataloguing

The following section presents in detail activities undertaken in the 1st area of research, i.e. for each form of database collection and cataloguing:

a. Numerical, Statistical Data Collection

The focus of the data collection in this particular form is on cataloguing existing statistical records on trade-related statistics provided by:

- Indonesia's Central Bureau of Statistics (BPS or Badan Pusat Statistik) which covers area of among others:
 - » Indonesia's export-import data on various commodity and services (year on year);
 - » Indonesia trade records with major partners;
 - » Major trade price indexes;
 - » Inflation rate, statistics on industry, finance (fiscal and monetary) statistics, gross domestic products,

- gross domestic regional product, gross national product, economic growth;
- » Poverty, employment and human development indexes.

Other sources of numerical data collection are WTO and OECD (Organization of Economic Cooperation and Development):

- The WTO Statistics Database (WSDB) provides comprehensive records on:
 - » **Trade Profiles** (in the form of predefined information leaflets on the trade situation of members, observers and other selected economies);
 - » **Tariff Profiles** (information on the market access situation of members, observers and other selected economies);
 - » **Services Profiles** (detailed statistics on key infrastructure services (transportation, telecommunications, finance and insurance) for selected economies); and
 - » **Time Series Section** (in the form of interactive data retrieval of international trade statistics).

- The OECD's International Trade and Balance of Payments statistics offer wide-ranging records on:
 - International Trade by Commodity Statistics (ITCS)
 - Monthly Statistics of International Trade (MSIT)
 - Trade in Services
 - Balance of Payments (BOP)
 - International Trade (MEI)
 - » International Trade World

- » International Trade Balance
- » International Trade Exports
- » International Trade Imports

b. Documentation of Articles, Research Reports/Papers

Task to document academic manuscripts, articles, research reports and papers are concentrated on classifying them in a manner similar to and parallel with the CWTS UGM's fields of interest and the WTO classification of issues.

a. Media Coverage

Effort to document media reports, news, updates of trade-related issues and events is among the activity implemented under The Area of Database Collection and Cataloguing. The activity comprises collection of news articles (printed and on-line version) in 3 (three) major Indonesian national newspapers, i.e. Jakarta Post, Kompas and Koran Tempo, plus 2 (two) local newspapers, i.e. Kedaulatan Rakyat and Jawa Pos. Compilation is based and in parallel with the classification created in the Documentation of Articles, Research Reports and Papers.

Documentation of media products is also conducted in its electronic version, i.e. to cover news updates of major international electronic news channel and its web version. Documentary movies and news updates produced and broadcasted by international news agencies and documentary agencies (CNN International, BBC, CNBC, Discovery Channel, National Geographic Channel (NGC), Fox, Aljazeera, Russian RTV, Japanese NHK, Korean Arirang) and national news agencies

(Metro TV, TV One, SCTV, RCTI, TVRI, ANTV, Trans TV, Trans 7, MNC TV, Indosiar) are stockpiled and categorized under the same classification as in for Documentation of Articles, Research Reports and Papers.

B. Regular Discussions and Seminars

Aimed at complementing the database collection tasks, regular discussions and seminars ensure the CWTS UGM's focal point roles of not only in data gathering, collection, systematization, but also in data dissemination as well as information and opinion-sharing centre among relevant stakeholders of trade.

a. Weekly Discussion Forum (Fridays 2 pm, started from October 2010)

The forum takes 2 (two) forms: #1 updates and dissemination of research activity of CWTS UGM, and #2 updates and dissemination of WTO development, news, events, and policies.

In the 1st form, discussions are focused on deepening issues of trade as seen and observed by CWTS UGM researchers and collaborators. It covers variety of problems, issues under the four research clusters of CWTS UGM. Topics and issues discussed among others are:

- Legal Aspects in Indonesia-US Trade Disputes on Tobacco (presented by Ms. Michelle Ayu Chinta, CWTS UGM junior researcher and a student of Faculty Law UGM currently writing her final undergraduate thesis)
- Governance in the Development of Handicraft Cluster in Yogyakarta:

a GVC Analysis (presented by Ms. Irdyanti, a graduate student of International Relations at the Faculty of Social and Political Sciences UGM, has just graduated recently)

- Government Strategy in Enhancing Indonesia's Wooden Furniture Competitiveness in the World Market (presented by Ms. Systs Ramania, a graduate student of International Relations at the Faculty of Social and Political Sciences UGM)
- Indonesia's Casava Trading in the World Market (presented by Dr. Putri Suci Asriani, PhD student of Agricultural Socio-Economics, Lecturer of Agricultural Socio-Economics at the University of Bengkulu, Sumatra, has just graduated recently)
- Indonesia's Position in Contemporary WTO's DDA Negotiations (presented by Mr. Angga Kusumo, an undergraduate student of International Relations at the Faculty of Social and Political Sciences UGM, has just graduated recently)
- WTO Updates (by Mr. Dedy Permadi, CWTS UGM researcher, and lecturer at the Department of International Relations at the Faculty of Social and Political Sciences UGM)

b. Monthly Seminar

The monthly seminar is designed to provide a medium of scholastic exchange among academia, researchers, media people, government officials, business practitioners,

non-government activists in deeper conceptual understanding as well as policy-dimensions of trade issues. It is also a medium to express the CWTS UGM's position in particular subject being debated in public which in turn influence and shape public opinion on the subject matter.

Subjects/topics discussed in the monthly seminar fora include:

- Upgrading Strategy for Indonesia's Agricultural Product Based in Rural Areas (presented by Prof. Zaenal Bacharuddin, Director General of Agricultural Product Marketing, Ministry of Agriculture)
- Current Position in Japan-Indonesia Trade Relations (presented by Ms. Siti Daulah Khoriaty, lecturer at the Department of International Relations at the Faculty of Social and Political Sciences UGM)
- Understanding the WTO GATS System (presented by Mr. Asianto Sinambela, Director of Trade, Industry, Investment and IPRs, Ministry of Foreign Affairs; Mr. Ho Liem and Mr. Peter Morrison, expert staffs at WTO Secretariat; and Prof. Mudrajad Kuncoro, lecturer at the Department of Economics, Faculty of Economics & Business UGM)

c. Publication of Research Products

In order to broaden public audience of research findings and other data dissemination activities, WCP/UGM Indonesia offers publication of an academic

journal, publication series of monographs, publication of research reports and/or books, and publication of an Indonesia's trade catalogue.

a. Journal of World Trade Studies (JWTS)

The journal –published in English version— is a three-monthly publication designed for scholars, researchers and other interested individuals having an academic article, paper or manuscript replicating her/his/their research findings, arguments or recommendation on trade-related topics or issues.

The first volume of the so-called “Journal of World Trade Studies” addresses a theme on “WTO and the Third World” containing articles on:

- Unbalanced Economic Growth and Dynamic Trade Specialization (by Tri Widodo)
- Political Economy of Regional Integration: Europe, East/Southeast Asia, Latin America Compared (by Riza Noer Arfani)
- The Impact of CAFTA Agreement on Trade, Challenge and Opportunities (by Masyhuri)
- ASEAN Economic Community 2015: Player or Spectator? (by Mudrajad Kuncoro)
- The WTO Dispute Settlement System (by Joseph Wira Koesnaldi & Junianto James Losari)
- WTO Updates (by Dedy Permadi)
- CWTS UGM Updates (by Dedy Permadi and Angga Kusumo)

b. Monograph Series

The monographs are end-results of policy research activities. They are

published following the submission of policy research reports (see the section of Policy Research Grant for topics endorsed by the WCP/UGM Indonesia). The reports are ready to be published in monograph series at the beginning of new round WCP/UGM Indonesia in (i.e. by mid February 2011)

The following themes are ready to be published:

1. Legal Implication of Product Standardization in TBT Agreement towards Developing Countries in the Context of International Trading System
2. Bureaucratic Dimension in Trade Policy: a Case Study on Negotiation Preparatory Stages of the Ministry of Trade towards WTO Doha Round
3. Analysis on the Competitiveness of Indonesia's Major Agricultural Exporting Products
4. Changes in Specialization Patterns in Indonesia's Export Products: a Comparative Advantage Analysis

c. Indonesia's Trade Catalogue

Publication of a catalogue is the final phase of data collection and cataloguing activities. The catalogue recapitulates and connects data storage and retrieval system with the practical need of relevant trade-related stakeholders of a users-friendly data and information presentation. Steps of catalogue publication activities include:

- Assigning special task force/team in data collection activity
- Data categorization and cataloguing

- Data analysis: description of the data, identifying current and future trends
- Publishing

At the end of 2010 WCP/UGM Indonesia, outlines of catalogue content, draft of the catalogue body, format and layouts of the catalogue publication are finalized. Currently, a mock-up version is ready to be printed as a sample version.

D. Policy Research Grant

The grant sets off the actual realization of connecting research activities with policy-making ones. Four areas of policy research are set under the WCP/UGM Indonesia program, i.e. legal dimension of trade, political economic dimension of trade, trade policy dimension, and technical dimension of trade. The 2010 WCP/UGM Indonesia provided 4 (four) grants to be utilized by CWTS UGM researchers and their partners fellows. Topics and teams selected are as follows:

1. Faculty of Law Research Team on "Legal Implication of Product Standardization in TBT Agreement towards Developing Countries in the Context of International Trading System"
2. Department of International Relations Team on "Bureaucratic Dimension in Trade Policy: a Case Study on Negotiation Preparatory Stages of the Ministry of Trade towards WTO Doha Round"
3. Faculty of Agriculture Team on "Analysis on the Competitiveness of Indonesia's Major Agricultural Exporting Products"
4. Faculty of Economics and Business Team on "Changes in Specialization

Patterns in Indonesia's Export Products: a Comparative Advantage Analysis"

Phases of policy research grant activities are as follows:

- Research Proposal: identification of topics, background of the research, and research questions formulation in each team
- Proposal Reviews by WCP/UGM Indonesia Chair-holder, Collaborators and Responsible Office-holder Representing CWTS UGM
- Proposal Modification and Revision: each team adjust its proposal as to conform with inputs and comments by reviewers
- Data Gathering: fieldworks, interviews, literature reviews, statistical works,
- Data Analysis: conceptualization, theorization, proposed arguments
- Reporting: recapitulation of research findings, conclusion, lessons learnt, and policy recommendation
- Manuscript for Monograph Publication: draft document is reviewed and ready to publish

Each team received a total amount of IDR 15,000,000 (CHF 1710) grant (excluding tax) and conducted the research for a period of 6 (six) months starting from September 2010 and will be ended by February 2011.

E. Setting Up Supporting Physical Facility

By setting up supporting physical facility, WCP/UGM Indonesia expects an atmosphere that will integrate and connect research activities/agenda with its policy-making context.

a. Arrangement of a closed-reserved library

A closed-reserved library is set up to facilitate desk-study and library research activities which will need adequate collection of textbooks, journals and other study materials. In 2010, WCP/UGM Indonesia sets up supporting furniture and library cabinet-set, and procures more than 190 textbook collections.

b. Web-based information management

The activity is in line with the need to outreach wider audience of CWTS UGM and its network research activities. It covers:

- Improving the existing CWTS UGM website in terms of design, layout, content, maintenance, and updates: a web expert is assigned to conduct the task
- Incorporating the website into WTO website (particularly in terms of content) by providing special link in order to expose collaboration and network between CWTS UGM and WTO.
- Focusing the management task on academic sharing among researchers and other trade-related stakeholders both in terms of actual interaction and virtual communication
- Assigning a coordinator and a team specifically responsible for this web-based information management

c. Setting up an internet and local area network (LAN)-based computer set

The equipment set is designed as a data storage and retrieval system. Database and other electronic data are collected and

catalogued under the system. In 2010, WCP/UGM Indonesia procures 6 (six) internet and LAN-connected computer units, i.e. 4 (four) desktop computer units and 2 (two) net-book computer units. The internet connection is made available through a broadband connection of TELKOM Speedy. Software programs needed for storage and retrieval system are also installed. In order to give a comfortable atmosphere for visitors, a WIFI/Hotspot connection is installed nearby the computer set.

The computer set and its utilization of data storage and retrieval is managed by a coordinator responsible for its usage and maintenance. For the 2010 WCP/UGM Indonesia, the equipment remains internally-used, so it is a closed-system which can only be accessed by CWTS UGM management and its researchers. However, for the next round of WCP/UGM Indonesia programme, additional units (up to 10 more units) are scheduled to be procured. The newly-installed units will be open for usage to general public/visitors and any individual interested in accessing the database.

d. Installing an integrated research and learning facility

The facility is designed to offer real and tangible integration of research activities and learning process through a set of equipment capable of serving the following functions:

- Movie presentation in a mini home theatre environment
- Video-conferencing, including teleconference needs
- Video recording to document TV programs relevant to trade
- 24-hour connection to satellite TV channels

- Computer-friendly technology TV set able to exchange information, data and materials TV-to-Computer vice versa
- Other multimedia presentation, e.g. video-players and other conventional data presentation

In 2010, WCP/UGM Indonesia procures a LED TV set, a home-theatre set, a set of satellite TV program (Indovision), a digital camera, an audio data-recorder, a wide screen, but not for video-conferencing equipment (which will be scheduled to be procured in the next 2011-12 WCP/UGM Indonesia programme).

Events/Outreach

Based on the WCP/UGM Indonesia's scheduled timeline as stated in the WCP/UGM Indonesia's Proposal/Application Document, activities under "Events/Outreach" in 2010 have not yet in the period of actual implementation. The WCP/UGM Indonesia Proposal puts April 2012 as the earliest date for the actual execution of Events/Outreach activities. However, in the 2010, WCP/UGM Indonesia set a pair of activities designed to ground the foundation of the planned networking activities in 2012 and 2013, i.e. the Short Course Series in International Trade (SCSIT) and an embryo of a Trade Forum. It is expected that by the year of 2011 the two sets of activities will set in motion to be partially implemented.

A. Administering Short Course Series in International Trade (SCSIT)

SCSIT is a serial academic inquiry designed as a forum for relevant stakeholders to trade. It is intended to explore core issues in international trade. Participants of the course are expected

to be representing government officials, business practitioners, academia, students and researchers as well as general public audience interested in trade-related issues.

Clusters in SCSIT

1. Legal Aspects in Trade
2. Political Economy of Trade
3. Trade Policy and Dynamics
4. Technical Aspects in Trade

SCSIT Themes and Detailed Topics

1st Seri: *Introduction to International Trade (IIT)* (conducted in December 2010)

Legal aspects in trade: Introduction to WTO TRIPs and DSM

Political economy of trade: Trade negotiation and Local capacity building

Trade policy and dynamics: Export-import policies and Global marketing

Technical aspects of trade: SPS in Agricultural Commodities and Product Standardization in Agricultural Commodities

2nd Seri: *Basics in International Trade (BIT)* (tentatively scheduled for March or April 2011)

Patterns of implementation of WTO Agreement: TRIPs (*Trade Related Intellectual Property Rights*), GATS (General Agreement in Trade in Services), AoA (Agreement on Agriculture) in national laws

Political economic motives in international trade negotiation

Trade Policy Review

Implementation of international product standardization

3rd Seri: *Cases in International Trade (CIT)* (tentatively scheduled for July or August 2011)

Empirical cases in trade-related practices, disputes, negotiation, diplomacy

Cases in TBT-related issues

Cases of product standardization: SPS and other standardization mechanism

4th Seri: *Practices of International Trade (PIT)* (tentatively scheduled for November or December 2011)

Internships, fieldworks

Hands-on experiences in trade-related practices

B. Initiating a Trade Forum

Initiation of a trade forum derives and originates from the execution of series of curriculum workshops, the 1st seri of SCSIT, weekly discussion fora, monthly seminar fora, as well as prospective networks where diverse representatives of trade-related stakeholders take active roles and participation in respective activities.

Types of activities in initiating the trade forum include:

- Invitation and participation in CWTS UGM electronic mailing list
- Dissemination of publication
- Invitation to CWTS UGM programs, discussions, seminars

Program Outputs

The activities undertaken and presented in the previous sections generate the following outputs which will be elaborated in the next sections:

Curriculum Development

There are two clusters of outputs generated in this particular activity of curriculum development: first of all, administrative and managerial outputs (which consist of consortium of faculties, administrative collaboration among consortium, OGS and Office of the Rector, and prospective networks with external partners), and second of all, substantive outputs of curriculum content and academic community ready to support the graduate program and is facilitated by the WCP/UGM Indonesia programme.

A. Administrative Outputs

1. Faculties Consortium

The consortium is developed upon understanding among key academic stakeholders on trade-related issues at UGM. In the next rounds of WCP/UGM Indonesia, it is facilitated and supported by CWTS UGM.

Facilitator: Director of CWTS UGM

Co-Facilitator: Chair-holder of WCP/UGM Indonesia

Core Members: Dean or Representatives of Faculties of Economics and Business, Social and Political Sciences, Law, and Agriculture

Supporting Resources: CWTS UGM and/or WCP/UGM Indonesia, Administrative and Other Facilities provided by the Core Members, Other/Potential Resources from External Prospective Networks

Scope of Assignments: Preparation of Graduate Study Program/MITS Curriculum Content and Administrative Support (2010), Implementation and Soft-Launching of the Program (2011-2012), Official Opening of the Program (2012-2013)

Accession of New Members: Potential Faculties and Partner Universities to be Included during the WCP/UGM Indonesia period of program implementation (e.g. Faculty of Agricultural Technology, Faculty of Medicine, Faculty of Pharmacy, Faculty of Geography, Faculty of Veterinary Science or Faculty of Engineering)

2. Administrative Collaboration

The collaboration –between the CWTS UGM, the WCP/UGM Indonesia and the Office of Graduate School (OGS) UGM—is aimed at easing administrative processes in the preparation of the program proposal drafting prior to its application to Academic Senate. Unofficial understanding between the two institutions has been reached and is moving towards alternative choices of transitional management of the program. Alternative scenario and steps identified as follows:

Step #1 Soft-launching of the MITS Program at UGM in the 2011 WCP/UGM Indonesia and introduction to the public of MITS Program Structure and Its Supporting Academic Activities, i.e. SCSIT and Trade Forum.

Step #2 Soft-opening of the MITS Program at UGM in the A.Y. of 2011-2012 (starts in September 2011) by establishing Memorandum of Understanding with the OGS, selected relevant faculties/existing graduate study program to be attached with the MITS Program.

3. Prospective Networks

Three clusters of networks are initiated through various activities of WCP/UGM Indonesia:

- a. Governmental Cluster
 - Ministry of Trade
 - Ministry of Foreign Affairs
 - Ministry of Agriculture
 - Ministry of Manpower and Transmigration
 - Ministry of Culture and Tourism
 - Bureau of Logistical Affairs (BULOG)
 - Yogyakarta Local Bureau of Trade and Industry
- b. Business Cluster
 - Indonesia's Chamber of Commerce (Kadin)
 - Indonesia's Business Association (API)
 - Indonesia's Junior Business Association (HIPMI)
- c. Academic and Other Social Cluster
 - Partner universities and research centres
 - WTO-NGOs Forum initiated and facilitated by Indonesia's Ministry of Foreign Affairs under Its Public Diplomacy Directorate

B. Substantive Outputs

1. Program and Curriculum Content Alternative Branding of the Program: MITS Program at UGM

Alternative Tagline of the Program (based on the CWTS UGM mission and identification of competencies of the proposed program):

MITS Program at UGM
 "Mastering Complexity of Trade in an Endeavour towards Strengthened Indonesia's Competitiveness"

Distinct Content of the Curriculum:

- Core Courses representing core competencies in comprehension of international trade practices via mastering the knowledge and skills of negotiation, diplomacy, legal analysis, economic policy analysis and technical aspects of trade.
- Elective Courses reflecting contemporary needs in comprehension of widening contexts of trade ranging from issues of product standardization, intellectual properties, competitiveness, upgrading policy, dispute settlement mechanism, to more conventional topics on finance, trade regionalism and multilateralism.

2. Academic Community

A group of scholars and researchers is organized to support the establishment of the MITS Program at UGM. Members include:

- Faculty members at the four major faculties interested in trade-related issues
- Researchers at CWTS UGM
- Partner researchers and scholars of CWTS UGM

Research

Outputs generated from WCP/UGM Indonesia research activities are of 5 (five) types, i.e. database and learning facility, a mock up of Indonesia's trade catalogue, roundtable forum for 4 (four) policy research clusters, a journal of world trade studies, and research forum.

A. Database and Learning Facility

The facility comprises an integrated function of data storage and retrieval system, web-based management scheme, and multimedia research and learning activity tools.

a. Closed-reserved library

The library collects more than 190 textbooks catalogued under documentation classification of opinions, articles related to trade issues. A corner is set up inside the CWTS UGM office-building to accommodate library activity needs. A simple cataloguing system is also set up to support the library's day-to-day activities.

b. Web-based information management

A coordinator and a management team are assigned for conducting web-based information administration of all activities planned and implemented under CWTS UGM and WCP/UGM Indonesia programme.

c. Multimedia research and learning activity gizmo set

A set of electronic equipment and other supporting tools is installed to facilitate a technologically-adept and savvy physical environment which integrates research activities/agenda and learning activities/processes.

B. Mock Up of Indonesia's Trade Catalogue

A mock up version of Indonesia's Trade Catalogue is made ready for publication as it remains in waiting for

editing processes and updating need for the most-recent data and information.

C. Roundtable Forum for Policy Research Clusters

Four roundtable forums are set up to accommodate academic and research exchanges among scholars, researchers, policy makers, students, NGO activists, general public and other trade-related stakeholders in four major clusters:

- Legal Cluster
- Political Economy Cluster
- Trade Policy Cluster
- Technical Aspect of Trade Cluster

D. Journal of World Trade Studies (JWTS)

A first volume of JWTS is published in the 2010 WCP/UGM Indonesia programme. In the next rounds of WCP/UGM Indonesia, the journal is designed to be published six-monthly (2 volumes/editions per year). In the post-WCP programme, it is targeted to be published four-monthly (3 volumes/editions per year) anticipating, taking benefits of the functioning and working of policy research clusters roundtable forums and weekly/monthly research forums.

E. Research Forum

The forum is set up to accommodate and encourage exchanges of ideas, knowledge, research findings and other academic activities among trade scholars, students, policy makers, practitioners, media and other interested individuals. It consists of:

a. Weekly Discussions Forum

The forum takes 2 (two) forms: (1) more general issues on trade-related subjects and (2) more specific issues on WTO and its most contemporary development.

b. Monthly Seminar

The forum is designed to get more widened or broadened audience as it is bigger and more distinctive in terms of public attendance, media coverage and expertise of the resource persons and/or speakers.

Activities/events

Outputs generated from WCP/UGM Indonesia events activities are of 2 (two) types, i.e. the execution of the 1st Seri of SCSIT and a prototype of a Trade Forum.

a. 1st Seri of SCSIT (Short Course Series in International Trade)

It is conducted as a four-day intensive training session on December 8th-11th 2010. It has also attracted attention and participation from key trade-related stakeholders representing various types of trade aspects, ranging from governmental bodies/ministries representatives, students and other academia, legal and business practitioners to NGO activists.

b. Prototype of a Trade Forum

The prototype takes a form of electronic mailing list exchange activities, regular encounters in academic and research occasions organized and administered by and under the CWTS UGM and WCP/UGM Indonesia programme, and a proposal

to establish more official cooperation and networking scheme entitled as "Indonesia Trade Forum".

Assessment of Results

Based on the WCP/UGM Indonesia work plan, the planned 2010 activities in curriculum development, research and events are predominantly accomplished despite changes in modes, forms and types which result in modified timeframe and schedule of implementation. They nonetheless direct towards the objectives stated in the WCP/UGM Indonesia Application/Proposal document. As a result, outputs generated from the modified activities have so far resulted in expected outcomes as I –as a chair-holder-- would envision.

The curriculum development activities have been our major source of creative energy and inspiration in the CWTS UGM towards an integrated multidisciplinary program purposely designed and dedicated to the study of international trade. As a chair-holder, I notice that the WCP/UGM Indonesia team (that has been working hands in hands with my collaborators) has shown the energy and inspiration that in turn would make my contribution to the WCP program even more pronounce. The establishment of variety of collaboration, consortium, networks, academic community and research forums at the end of the 2010 WCP/UGM Indonesia programme has played as an essential sign of such a pronounced contribution.

The research activities which cover broad area of expertise and variety of academic connection and networks have served as a catalyst of our contribution

at the CWTS UGM towards developing an integrated research and learning endeavour. My sense is that the research outputs (including an integrated database and learning facility, a trade catalogue, roundtable forum/policy research clusters, a journal of world trade studies, monograph series, and research forums) will eventually stimulate the CWTS UGM research aptitude in way that would incorporate various trade-related stakeholders to our research agenda and activities.

The “Indonesia Trade Forum” initiative –along with the organization and implementation of so-called “Short Course Series in International Trade (SCSIT)” Program— will in turn complementary to the WCP/UGM Indonesia research activities outputs. The two would have the effect of what I envisage as “eloquent awareness and appreciation among trade-related stakeholders for an integrated society of trade in Indonesia and hopefully –as targeted in the next rounds of WCP/UGM Indonesia— regionally in Southeast Asia.

However, major constraints in dealing with such ideas and initiatives would originate from the fact that awareness among trade-related stakeholders remains inadequately little. While in terms of wider and general public attention to trade issues, even bigger challenges lie ahead of their practically-speaking “zero participation” in trade-related seminars, discussions, public opinion debates, media exposures, decision making processes or even public day-to-day talks. Activities undertaken in the WCP/UGM Indonesia programme confront with this particular kind of issues when wider public participation is needed.

Escape from such a situation, I really keen to model the Trade Forum not only as a “serious” academic forum, but also a forum where “trade is fun to follow”. Sessions where we could for example “nonton bareng” (literally mean “watching together” in English) trade-related documentary movies or events (and then talk and discuss about them) are among the idea that topped up in my head. In fact, at CWTS UGM, we have actually put it as part of program for the next rounds of WCP/UGM Indonesia in 2011-2013.

Center for World Trade Studies
Universitas Gadjah Mada
Gedung Unit Perpustakaan Terpadu III, 3rd Floor,
Universitas Gadjah Mada
Jalan Tridharma, Bulaksumur, Yogyakarta, Indonesia.
Telp./Fax: 0274-580 273
Email: cwts@ugm.ac.id
Web: www.cwts.ugm.ac.id



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