



Impact of the Trans Pacific Partnership to Indonesia

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ABSTRACT

The paper is structured aims to analyze the extent to which profits and losses if Indonesia joined the trans-pacific partnership (TPP). Based on the analysis it can be concluded that in general the TPP will have a negative impact on Indonesia, both in terms of trade in goods and services, investment, intellectual property rights and state. Considering the negative impacts of TPP and taking into account the 12 countries that joined the TPP, the four countries are of ASEAN which has had cooperation through AFTA, and there have been bilateral cooperation with Peru, the Government should in the short-term more emphasis on bilateral cooperation, particularly with the United States.

Keywords: Trade, Economic Integration, International Investment

JEL Classifications: F13, F15, F21

1.INTRODUCTION

The trans-pacific partnership (TPP) is a proposed regional free trade agreement (FTA) being negotiated among the United States, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. U.S. negotiators and others describe and envision the TPP as a “comprehensive and high-standard” FTA that aims to liberalize trade in nearly all goods and services and include rules-based commitments beyond those currently established in the World Trade Organization - WTO (Fergusson et al., 2015).

The countries involved produce 40% of the world’s total gross domestic product (GDP) of \$107.5 trillion, 26% of its trade, and 793 million of its consumers. The TPP trade area is bigger than the North American Free Trade Agreement, currently the world’s largest. Current trade between the countries is \$1.5 trillion in goods (2012 estimate) and \$242 billion in services (2011 estimate). It would be slightly smaller than the other large regional trade agreement being negotiated, the Transatlantic Trade and Investment Partnership between the United States and the European Union (Petri and Plummer, 2016).

Economic modeling can show, however, the effects of the scheduled liberalization elements of the TPP, provided it is ratified

by its members. The estimates reported here suggest that the TPP will increase annual real incomes in the United States by \$131 billion, 3 or 0.5% of GDP, and annual exports by \$357 billion, or 9.1% of exports, over baseline projections by 2030, when the agreement is nearly fully implemented. Incomes after 2030 will remain above baseline results by a similar margin. To put this in context, all US investments in a given year have been estimated to raise US real incomes by 1% (Petri and Plummer, 2016).

That would be especially true of the TPP because it protects patents and copyrights. Therefore, the higher-paid owners of the intellectual property would receive more of the income gains. The agreement regarding patents will reduce the availability of cheap generics, making many drugs more expensive. Competitive business pressures will reduce the incentives in Asia to protect the environment. Last, but not least, the trade agreement could supersede financial regulations (Public Citizen, 2013).

Four from 10 ASEAN members, four of whom join the TPP, namely Singapore, Malaysia, Viet Nam and Brunei. While others, such as Thailand and the Philippines, to monitor carefully the development of TPP as he showed interest in joining. While Indonesia publicly expressed his desire to join. In summary, this paper aims to examine the extent to which the advantages and disadvantages of Indonesia when joining the TPP.

2. LITERATURE REVIEW

The rise of regional agreements has rekindled debate on whether they support or impede global efficiency and activity in member and nonmember countries (Freund and Ornelas, 2010). Benefits for members RTAs open markets between partners, leading to a more efficient division of labor, technology spillovers and related productivity growth (“trade creation”; Hoekman et al., 2006; Blade, 2004). A growing literature suggests that trade agreements foster domestic reforms in developing countries (Baccini and Urpelainen, 2014). The rise of regional agreements has rekindled debate on whether they support or impede global efficiency and activity in member and non-member countries (WTO, 2011; Freund and Ornelas, 2010; World Bank, 2005; Maggi, 2014).

Petri and Plummer (2016) conducted a study on the economic impact of the TPP using a quantitative model of a comprehensive trade. This research is the development of research Petri et al. (2012) which shows that the TPP will boost annual real income in the United States amounted to USD 131 billion, or 0.5% of GDP, and annual exports of \$ 357 billion or 9.1% of exports to the baseline projection of early 2030, when the agreement is almost fully implemented. The annual worldwide revenue will be USD 492 billion in 2030. While the United States will be the biggest beneficiaries of the TPP in absolute terms. TPP will also generate considerable profit for Japan, Malaysia, Viet Nam and other member states. The agreement will increase wages, but not projected to change the level of the US workforce.

While the impact of TPP on non TPP member countries will only be enjoyed by the EU and partially Hong Kong. While the impact on Indonesia only on foreign direct investment. Without following TPP, baseline by 2015, the Indonesian government revenues in 2030 will range between USD 1853 billion to USD 2,383 billion. However, if following the TPP, the Indonesian government revenues will drop by 0.1%.

In the context of TPP, Petri and Plummer (2016) estimates the effects of the TPP using a comprehensive, quantitative trade model, updating results reported in Petri et al. (2012) with recent data and information from the agreement. The new estimates suggest that the TPP will increase annual real incomes in the United States by \$131 billion, or 0.5% of GDP, and annual exports by \$357 billion, or 9.1% of exports, over baseline projections by 2030, when the agreement is nearly fully implemented. Annual income gains by 2030 will be \$492 billion for the world. While the United States will be the largest beneficiary of the TPP in absolute terms, the agreement will generate substantial gains for Japan, Malaysia, and Viet Nam as well, and solid benefits for other members. The agreement will raise US wages but, is not projected to change US employment levels; it will slightly increase “job churn” (movements of jobs between firms) and impose adjustment costs on some workers.

3. RESEARCH METHOD RESEARCH

This study uses a qualitative methodology by conducting a review of the various scientific papers and research reports related to TPP.

While the data obtained from various sources such as the OECD, the World Bank, the International Trade Centre and other sources.

4. RESULTS AND DISCUSSIONS

There are two important benefits that can be obtained by Indonesia of involvement in the FTA. First, the investment will increase. Even though, the direct impact of trade cannot be directly sensed. And secondly, to encourage domestic reforms unilaterally. But, to join the TPP, Indonesia faces a more complicated issue because the TPP covers not only trade in goods, services and investments, but also other aspects of the trade, such as the settlement of trade disputes, labor, and environment.

4.1. Trade in Goods

Indonesia’s entry into the TPP will become an advanced stage of liberalization of trade in Indonesia after AFTA (1992) and the ASEAN Economic Community (2015). TPP is a trade agreement Asia Pacific countries and currently consists of 12 countries. The US, as the largest economy in the world, and Japan, the third largest economy in the world, have joined the TPP, while China, as the country with the second largest economy in the world, are still outside the TPP.

On one side, joining Indonesia into the TPP is expected to be an alternative to enlarge Indonesia benefits from international trade. With the entry into the TPP, Indonesian manufacturers can obtain greater access, particularly to the US and Japan as the two countries are Indonesia’s main export destination. Especially for Japan, to compare whether a given trade facilities of Japan in TPP is larger than Indonesia-Japan Economic Partnership Agreement. If not, then Indonesia’s participation in the TPP will have a positive impact on Indonesian exports to Japan.

But, on the other hand, the problems faced by exporters Indonesia is not merely a matter of market access, but also because of lack of competitiveness due to high production costs. The low competitiveness resulting product diversification Indonesia which has the advantage for exports expanded significantly. According to The Global Competitiveness Index 2014-2015, Indonesia’s competitiveness compared to countries that have joined the TPP, Indonesia just ahead of Mexico, Peru, Vietnam and Brunei.

Meanwhile, Indonesia’s trade balance with the TPP member countries, in 2015, Indonesia is only deficit in four countries, namely Brunei Darussalam, Canada, Singapore and Vietnam. In general, Indonesia’s exports to the United States and Japan dominated by coal, gas, petroleum and goods from copper. These four types of export goods are facing price volatility, so if the price in the market fall, it would have an impact on Indonesian exports.

A fundamental element of most FTAs is commitments among FTA partners to eliminate most, if not all, tariffs and quotas on their trade in goods. Current average most-favored nation (MFN) tariff levels for TPP countries vary from 0% to nearly 10%. Meanwhile Indonesian MFN tariff average in 2015 was 8.83%, slightly below Vietnam, and over 10 other TPP member countries. The

TPP will include tariff phase-out schedules that cover more than 11,000 commodity categories for each of partner countries. In November 2011 in Honolulu, the TPP trade ministers stated that they are aiming for duty-free access for trade in goods. The tariff schedules likely will provide for phase-out of tariffs, with tariffs on many products phased-out immediately when the agreement enters into force, and tariffs on more sensitive products phased out over longer and varying periods of time. All of the current TPP countries are in the process of some tariff elimination as each has an FTA with one or more of the other TPP partners.

4.2. Trade in Services

The top priority for US in its negotiations of bilateral and regional FTAs is to increase market access for services providers, especially financial services, including insurance and banking; professional services, including legal services and private educational services; telecommunication services; express delivery; e-commerce and data flows (see e-commerce section below). In doing so, the United States has sought to expand on modest commitments that trade partners have made in the WTO under the General Agreement on Trade in Services, especially in the failure on those commitments in the now dormant Doha Round, perceived by WTO partners.

Restrictions in services trade, like non-tariff barriers on goods trade, can take many different forms, making them difficult to quantify and compare across countries. The OECD has created indices that can provide some measure of services trade restrictiveness. These indices, available for OECD countries across 18 different services sectors, suggest that there is considerable variation in services trade restrictiveness among TPP OECD countries (Australia, Canada, Chile, Japan, Mexico, New Zealand, and the United States) and hence opportunity for liberalization through TPP negotiation efforts.

Apart from the restrictions of rules of trade in services, Indonesia's services trade position in the world trade is always deficit from year to year. In 2010 the deficit in services trade amounted to USD 738 million and in 2014 the trade deficit increased to USD 1160 million (OECD, 2015). While the position of Indonesia's services trade with TPP member countries is majorly deficit except with Canada.

4.3. Investment

Total investment into the TPP member countries in 2013 reached 36% of total world investment flows and in 2014 dropped to 28% (World Investment Report, 2015). While the total FDI inflows into Indonesia, in 2011, 45% comes from three TPP member countries, namely Singapore, Japan and US. Share this in 2014 dropped to 44%. Nearly 60% of United States investment in Indonesia concentrated on the mining and oil sector which has helped the production of copper, gold, oil and gas on a national scale. Singapore investment is concentrated in the sectors of transportation, warehousing, and telecommunications, food crops and plantations, mining and food industries. While Japan is concentrated on the motor vehicle industry and other transport equipment and metals industry.

Indonesia plan to join the TPP is projected to increase FDI. However, without join in TPP, the TPP will have a positive impact on FDI as estimated by Petri and Plummer (2016). But clearly, not join the TPP is not projected to affect the investment from the United States, Japan and Singapore in Indonesia. United States and Singapore are very concerned with the supply of raw materials and ingredients mine, so that investment between the two countries is expected to further increase in the years to come. Japan is also very concerned with markets in Indonesia, so investments in the Motor Vehicle Industry & Transport will also continue to increase in the coming years.

TPP regulated dispute resolution mechanism between Investor by the State, or known by the Investor-State Dispute Settlement (ISDS). The entry of ISDS in the TPP would enable Indonesia to be sued by US investors in international arbitration institutions as a result of changing regulations that are considered prejudicial to the interests of foreign investors. In that regards, Indonesia will be reluctant to make laws or regulations to protect Indonesian people's interests.

In the context of investment, some considerations are need to be highlighted before the government decides to join the TPP, including: First, the problem of investor rights provisions to sue government policy to international arbitration. This contrasts with the Indonesian domestic investment law which states that if there is a dispute, it has to be settled by the investor and the government. TPP requires the liberalization of services with a negative list approach as investment goods. On these backdrop, foreign businessmen who intend to invest in new specific country must be protected like old investors.

Second, the reduction of state owned enterprises (SOE's) role as "agents of development." TPP regulates that the government's support on SOE's to be the same with its support to the private, in order to create fair competition. To date, this SOE's is considered to monopolize the business at domestic level through state support in the form of cheap loans, tax exemption, up to the special right of being able to exclude laws. TPP will apply the principle of non-discrimination and legal fair competition for state enterprises.

Thirdly, the elimination of tariffs to the limit as low as possible will facilitate the entry of US products and other industrialized countries, rather than the outflow of Indonesian products to US or other industrialized countries market. With high standards of market access in TPP, it will be potentially eliminating the ability of Indonesian small businesses enterprise to be able to enter the TPP countries market.

4.4. Intellectual Property Rights

Indonesia has ratified five international conventions related to intellectual property rights, namely: (i) Paris Convention for the Protection of Industrial Property and Convention Establishing the World Intellectual Property Organization (Presidential Decree No. 15 of 1997 on the amendment of Presidential Decree No. 24 of 1979), (ii) Patent Cooperation Treaty (PCT) and Regulation under the PCT (Presidential Decree No. 16 of 1997), (iii) the

Trademark Law Treaty (Preiden Decree No. 17 of 1997), (iv) the Berne Convention for the Protection of Literary and Artistic Works (Presidential Decree No. 18 of 1997) and (v) the WIPO Copyright Treaty (Presidential Decree No. 19 of 1997).

Although it has been ratified intellectual property rights, Indonesia is seen by the United States less assertive in enforcing intellectual property rights. Indonesia remains a priority in the List 2011 Special 301 Report. Key issues including the issue of copyright piracy and trademark counterfeiting rated lack adequate criminal charges, and penalties are a deterrent for those found guilty. According to the United States that the court system is considered less transparent and not a deterrent. Rates of physical counterfeiting and piracy and piracy via the Internet are very high (about 87% of the business software without permission in 2010), while the piracy rate in the mall and in the retail sector is higher. Enforcement efforts are not enough to offset the broad-based piracy and counterfeiting in Indonesia, including those relating to counterfeit pharmaceutical products (2012 Special 301 Report).

If Indonesia joined the TPP, like countries that have joined the TPP, no longer had sovereignty over national law in the land sector, health, licensing regulations, government policies related to procurement, intellectual property right, and financial regulatory/monetary. Because all laws of those sectors should refer to the foreign tribunal as a private court that serves the strategic interests of US global corporations. Which means that in case of legal disputes with countries signatory TPP, then corporations are welcome to use legal protection beyond the control of the national legal system of each TPP member countries.

4.5. State-Owned Enterprises

At the level of paradigms, a liberal economy (including TPP) is contrary to the Article 33 of the 1945 Constitution. Free trade is the implementation of liberal economic ideas on a global scale that require minimal intervention from the government on economic activity, including abolishing space state intervention on economic activity across borders. Contrary to the idea, Article 33 UUD 1945 requires the state is always present and strong in economic life, when it comes to the welfare of the people.

Article 33 UUD 1945 is implemented by granting exclusive rights to SOEs to implement it. In another form, the state adopted a policy of using more local products as compared with foreign products in the supply chain related to the company's important production and natural resources. The nature of Article 33 UUD 1945 is protectionist and monopolistic economy, which different with the principles and the spirit of free trade that is free competition and anti-monopoly.

In TPP, free competition and anti-monopoly is the backbone that set 30 cluster arrangements, two of them, the governance of SOE and the Government Procurement are contrary with the Indonesian constitution. For example, commercial considerations, anticompetitive, non-discrimination or non-monopolized market in TPP's formula are limiting the function

of SOE to be an agent of the government in achieving prosperity for the Indonesian people.

5. CONCLUSIONS AND RECOMMENDATIONS

Indonesia plan to join the TPP or not will not affect the possibility of investing in Indonesia, because the TPP member countries, particularly the United States and Singapore are very concerned with the supply of raw materials and mineral deposits, while Japan is also very concerned with its automotive markets in Indonesia. When joining the TPP, the possibility of FDI will increase, but it is potentially detrimental to Indonesia. One of the problems is investor rights to sue government policy to international arbitration.

In addition, Indonesia plan to join the TPP will eliminate the sovereignty of national law in the land sector, health, licensing regulations, government policies related to procurement, intellectual property right, and financial regulatory/monetary. Because all laws of those sectors should refer to the foreign tribunal as a private court that serves the strategic interests of US global corporations.

Based on the results of the study, preferably in the short term Indonesia does not need to join the TPP. Besides, given the TPP members from 12 countries, four of which are members of ASEAN that had been implemented AFTA, in addition Indonesia and Peru also conducted bilateral cooperation. Therefore, Indonesia needs to consider forms of bilateral cooperation with other TPP country members in a sense of mutual benefit.

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