

CHAPTER I

INTRODUCTION

A. Background

The formation of the EPA itself was born when the proposal to form an FTA was offered by Japanese Prime Minister Junichiro Koizumi to President Megawati who was visiting Tokyo on June 22-25, 2003. (Ministry Foreign Affairs of Japan, 2003). In the Joint Announcement by the Prime Minister of Japan and the President of the Republic of Indonesia on the Possibility of the Economic Partnership Agreement between Indonesia and Japan, which was announced on September 8, 2003, Megawati and Koizumi agreed to assign officials in both governments to carry out a preliminary meeting discussed the possibility of establishing an EPA between Indonesia and Japan (Ministry Foreign Affairs of Japan, 2003).

On September 8, 2003, a preliminary meeting was held in Tokyo, Japan and filled with discussions on the views of the two countries regarding the FTA. (Ministry of Foreign Affairs of Japan, 2003) On November 6, 2004, Head of Nippon Keidanren, Hiroshi Okuda visited President SBY to resume talks about the FTA of Indonesia and Japan, according to Okuda, at the meeting, SBY expressed his commitment to continue the discussion on FTA cooperation that had begun since the Megawati administration (Japan Times, 2004). Previously, Japan's initiative to form EPA with Indonesia was related to the formation of EPA with ASEAN. This was confirmed by Japanese Prime Minister Koizumi at the ASEAN-Japan Summit in Phnom Penh on November 5, 2002, Koizumi stated that to be able to carry out FTA cooperation in Southeast Asia must be done with two levels (two-level Approach) namely bilateral and regional (Yue, 2003).

Furthermore, on December 15, 2004, Japanese Economy Minister Soichi Nakagawa met with Coordinating Minister Aburizal Bakrie to discuss a new agreement plan which was a continuation of the offer of Japanese businessmen's investment incentives presented to President SBY at the previous meeting

(Rendi, 2004). The next day on December 16, 2004, Nagawa met with Minister of Trade Mari Elka Pangestu and agreed to create a joint study group (Joint Study Group / JSG) which was tasked with reviewing and providing a comprehensive assessment of the possibility of establishing an FTA, costs and benefits as well as any sectors involved in the collaboration (Hakim, 2005).

After three JSG meetings, the two countries agreed to continue talks to the negotiation level. However, both Japan and Indonesia have high resistance to liberalization in certain sectors. This is what makes negotiation difficult and time-consuming. After two years of negotiations, the two countries finally formed the Indonesia-Japan Economic Partnership Agreement (IJEPA) as an economic partnership that includes the establishment of FTAs, investment agreements, cooperation in energy and others.

The JSG results recommend the benefits of the EPA between the two countries in the form of the Indonesia-Japan Economic Partnership Agreement (IJEPA), which is then followed by a series of 6 (six) rounds of negotiations from July 2005 to November 2006. At the end of the negotiations on November 24, 2006, in Tokyo, the two Chief Negotiators, Ambassador Soemadi DM Brotodiningrat and Mr. Mitoji Yabunaka signed a Record of Discussion which included principle approval of the main sections of the 13 negotiating groups and agreed to finalize the agreement as soon as possible. On June 21-22, 2007, the final negotiations were carried out within the framework of the wrap-up meeting. The results of the negotiations took the form of a Record of Discussion which was then agreed upon by the two Chief Negotiators, namely Ambassador Soemadi DM Brotodiningrat and Mr. Masaharu Konho, Deputy Minister of Foreign Affairs. These results are the basis for the next steps that will resolve the Pending issue and tidy up the draft text in terms of language and law.

The cooperation between Japan and Indonesia in the Indonesia-Japan Economic Partnership Agreement (IJEPA) was signed on August 20, 2007, by President Susilo Bambang Yudhoyono and Prime Minister Shinzo Abe and entered into force on July 1, 2008. Indonesia opened its market access around 93% from 11. 163 line rates for Japanese products, with 58% of the line tariffs going into effect immediately since the agreement began on July 1, 2008, while Japan, opening market access for Indonesian products more than 90% from the line rates, with 80% of the line rates immediately effective since the agreement began. Indonesia itself sees IJEPA as a form of formal cooperation with Japan whose aim is to increase the volume of trade between the two countries. IJEPA Cooperation itself was built three main pillars namely, Trade Facilities, Liberalization and Cooperation (Kementerian Perdagangan Republik Indonesia, 2018).

Free trade agreement or (Free Trade Area) in the framework of bilateral economic cooperation agreements that Indonesia first entered into with partner countries was the IJEPA (Indonesia-Japan Economic Partnership Agreement). The agreement was arranged to produce benefits for both parties in a fair, balanced and measurable way through market access liberalization, facilitation, and cooperation through capacity building for priority industrial sectors. There are 11 areas covered by the IJEPA agreement, including trade in goods, arrangements related to the origin of goods and customs procedures. The agreement was signed by both the heads of the state of Indonesia and Japan on August 20, 2007, in Jakarta.

In the industrial program or MIDECA (Manufacture Industry Development Center) IJEPA, Indonesia and Japan both agreed on the existence of special concessions granted. The concession is in the form of eliminating or reducing import duty tariffs in three classifications: fast-track, normal track and exclusion, by installing emergency and safeguard measures to prevent possible negative impacts on the domestic industry. For fast-track classification products, a certain percentage of the

total tariff lines will be reduced to 0% at the time of entry into force of IJEPA. For normal-track classification products, the tariff is reduced to 0% in a certain period that varies from a minimum of three years to a maximum of 10 years (for Japan) or 15 years (for Indonesia) since the entry into force of the IJEPA for a certain percentage of total tariff posts. In addition to the tariff concessions, a special tariff concession scheme for certain industrial sectors and its compensation is arranged through the facilitation of the manufacturing industry development center.

In addition, the IJ-EPA is a new-age free trade agreement consisting of thirteen comprehensive and World Trade Organization (WTO) plus issues (exceeding agreements set by the WTO) plus capacity building as part of a partnership agreement. Thirteen elements in IJ-EPA include 1) Trade in Goods, 2) Trade in Services, 3) Rules of Origin (ROO), 4) Investment, 5) Improvement of Business Confidence, 6) Movement of Natural Persons, 7) Energy and Mineral Resources, 8) Customs Procedures, 9) Intellectual Property Rights, 10) Competition Policy, 11) Technical Cooperation and Capacity Building, 12) General Provisions, and 13) Government Procurement.

IJEPA as one of the special forms of FTA has been effective for almost four years, and therefore it is interesting to study the impact so far on the economies of Indonesia and Japan. The purpose of an FTA impact assessment is to find out whether the objectives of an FTA can be met. One area of agreement that is important to evaluate its impact or needs to do an impact assessment is the IJEPA goods trade sector or sector.

Looking at the rapid development of the industry's potential until now, accompanied by the collaboration of Indonesia and Japan in the field of industry, the author tries to examine and analyze "THE IMPACT OF JAPAN AND INDONESIA (IJEPA) TOWARD INDONESIA TO

COMPETITIVENESS THE MANUFACTURING INDUSTRY DEVELOPMENT CENTER (MIDEC)''

B. Research Question

Based on the background described and the observations of the author above, the author identify the above problems, namely, as follows: "What are the impacts of the Indonesia-Japan Partnership Agreement (IJEPA) for Indonesia?"

C. Theoretical Frameworks

To facilitate the research process, there is a need for grounding to strengthen the analysis. Before presenting the concepts that will discuss the points of thought that are under the theme of this researcher is a necessity in a study to use a scientific approach to the conceptual mindset in directing the research.

This theoretical framework aims to help understand and analyze problems by being supported by the opinions of competent experts in this study and the author uses the Theory of International Cooperation and Concept of Free Trade Agreement. Therefore, the author will use theories related to the problems that will be examined as a means of shaping understanding and making guidelines in the object of research.

1. Theory of International Trade

International trade is a form of economic cooperation between two or more countries that provides direct benefits, namely the fulfillment of the needs of each country, which cannot be met only by relying on domestic production alone. So that international trade activities aim to improve the country's living standards (Schumacher, 2013). The benefits of international trade in terms of exports are in the form of increased income, increased foreign exchange, and expanding employment opportunities (Krueger in Nanga, 2005).

International trade theory analyzes the basics of trade between countries, the flow of goods and services, policies

directed at regulating trade flows and their effects on the countries involved. The theory of international trade also shows the benefits that can be obtained by each country in the presence of international trade (Salvatore, 1997).

International trade itself is an activity of trading goods and services carried out by one country with another country. In essence, international trade involving countries throughout the world arises because no country can produce all the needs of society for goods and services (Delianov, 1995). So that international trade arises as a result of interactions between competing for demand and supply (Lidert, 1994).

Other international trade theories are explained as follows:

a. Absolute Advantage Theory

Classical economics was officially established when Adam Smith issued his book entitled *An Inquiry into the Nature and Causes of the Wealth of Nations*, which is usually abbreviated as *Wealth of Nations*. In his book, Adam Smith wants to explain how to increase the wealth/prosperity of a country and how wealth is distributed. In this case, the wealth of a country will increase with the improvement in the skills and efficiency of the workforce, and in line with the percentage of the population involved in the production process. the economic welfare of each individual depends on the ratio between total production and population. Adam Smith also suggested the specialization of work and the use of machines as the main means of increasing production. he also introduced the concept of his invisible hand where every person who carries out activities in the economy is guided by an "invisible hand" so that by pursuing his interests it is often more effective to advance the interests of the community first.

According to Adam Smith, trade between the two countries is based on absolute superiority. If a country wants competition, free trade and specialization within the country, then the same thing is desired in international relations. A country is more efficient than (or has an absolute advantage over) another country in producing a commodity, but less efficient than (or has an absolute loss against) another country in producing other commodities, then both countries can benefit by their respective ways of doing. Specializes in producing commodities that have absolute advantages, and exchanging them for other commodities that have absolute losses. Through this process, resources in both countries can be used most efficiently. The output of the two commodities produced will also increase. This increase in output will measure the profits from the specialization of production for the two countries that trade.

The theory of absolute superiority states that a country exports certain goods because it can produce these goods at a cost that is cheaper than other countries, in other words, it has an absolute advantage in producing these goods (Marbun, 2015). The theory of absolute superiority based on key assumptions includes:

- 1) The production factor used is only labor
- 2) The quality of goods produced by the two countries is the same
- 3) Exchange is done in barter or without money
- 4) Transportation costs are ignored

As an illustration of absolute superiority which is as follows: if a country has an absolute advantage over other countries in producing a commodity, but has an absolute loss against another country nature produces other commodities, then both countries can benefit by doing

their respective specialization in produce commodities that have absolute advantages and exchange them for other commodities that have absolute losses (Salvatore, 1997).

b. Theory of Comparative Advantage

According to the theory of comparative advantage, even though a country is less efficient than other countries in producing both commodities, there is still a basis for conducting trade that benefits both parties (Salvatore, 1997). The theory of comparative advantage is based on the value of labor (theory of labor value) introduced by David Ricardo, which states that the value or price of a product is determined by the amount of time or hours of work needed to produce it. Thus, a country will benefit from international trade if it specializes in producing and exporting goods by producing relatively more efficiently and importing goods where the country has relatively less efficient production (Putra, 2013). In other words, a country will continue to benefit from trade if it specializes and exports goods which have a relative advantage, whereas relative advantages indicate that a country is relatively more efficient in producing goods.

According to the law of comparative advantage, even though a country is less efficient than (or has an absolute loss to) another country in producing both commodities, there is still a basis for conducting trade that benefits both parties. the country must first specialize in producing and exporting commodities that have smaller absolute losses (comparative advantage) and importing commodities that have greater absolute losses (comparative losses). in the context of two countries and two commodities, if one country has been determined to have a comparative advantage in one commodity, then the other country must be considered to have a comparative advantage in the other commodity.

This theory explains the phenomenon of bilateral economic cooperation between Indonesia and Japan, where the Indonesia will be beneficial and profitable. The established international trade is a medium of bilateral economic cooperation between the two countries. Exchange of trade commodities can meet the needs of each country that cannot be produced alone. Thus, Japan's policy will also influence Indonesian policy, vice versa.

2. Concept of Free Trade Agreement

The concept of the Free Trade Agreement is an agreement formed by two or more countries that contain a system to reduce barriers between the trade of these countries, where these barriers aim to protect the local market and industry. Trade protection usually appears in the form of tariffs and trade quotas. Free Trade Agreement also protects state spending, intellectual property rights and competition policies (Grimson, 2014). The elimination of trade barriers is expected to be able to open new market access for industries, increase the reach and target number of sales of their products.

According to Arthur O'Sullivan and Steven M. Sheffrin in his book entitled *Economics: Principles in Action* states that the Free Trade Agreement is an agreement concerning cooperation between two or more countries to reduce trade barriers (such as import quotas and tariffs) and to increase trade in goods and services between countries with other countries involved in the agreement (O'Sullivan & Sheffrin, 2003).

Another opinion says that the Free Trade Agreement is a policy whereby tariffs and quotas between member countries are abolished, but each country still applies their respective tariffs to non-member countries (Ballasa, 1961). Bela Ballasa himself in his book argues that FTA is one form of economic integration between countries.

If you see the desire of free trade where all the provisions both tariffs and non-tariffs can be eliminated and/or reduced, in general, free trade aims to increase the circulation of goods in international trade, so that anyone can make transactions without any interference or intervention from the government except things that are supportive or facilitative. But certainly not solely to facilitate the flow of goods or eliminate all things that are considered as obstacles. In this case, it is hoped that by removing or reducing barriers, it will increase the passion of each business actor, so that the volume of trade will increase so that in the end it will affect the economic growth of each country. Thus, the real purpose of free trade is to increase the economic growth of each country.

The above objective can be said as a general goal of free trade, because as we know that by considering the principle of reciprocity, every free trade scheme is built by the agreement between the parties involved. This means that the purpose of the free trade or FTA scheme goes back to the parties that formed the agreement, which is usually included in every agreement that forms the FTA scheme (Hadi, 2012).

Free Trade Area (FTA) or free trade between countries that want to advance their economy. Meanwhile, concerning the Free Trade Area, the meaning is, "Free Trade Agreement (FTA) is a free trade agreement made between one country and another. The formation of various FTAs is a result of trade liberalization which cannot be avoided by all countries as members of the international community. This is what drives the formation of free trade blocs. FTAs can be formed bilaterally, for example between the United States and Singapore, the United States and Chile; Japan with Indonesia; and regionally, such as the ASEAN Free Trade Area (AFTA), North America Free Trade Area (NAFTA) and the European Union ” (Kementerian Keuangan Badan Kebijakan Fiskal, 2019).

Free Trade Area (FTA), a free trade area of two or more countries that agree to remove trade barriers within their region and among themselves, but each country maintains its import tariffs on imported goods from countries outside the region the free trade.

The basic principle of the Free Trade Area (FTA) or negotiations between the Indonesia-Japan Economic Partnership Agreement is:

- Single undertaking (nothing is agreed until everything is agreed)
- Liberalization must be consistent with Article XXIV of GATT
- Based online by line
- Market access negotiations are carried out simultaneously with ROO
- Initial request and the offer includes all line rates
- Requests are based on partner tariff classifications
- The base rate for Japan April 1, 2005, while Indonesia is waiting for the completion of the phase II harmonization process, and
- Tariff reduction/removal categories are linear.

Based on this the author needs to put forward the core of the problem under study, in this case, the author sees how the efforts of each country to fulfill their national interests one of them by conducting international cooperation. The effort made by Indonesia is by cooperating with Japan in the industrial sector through the Indonesia-Japan Economic Partnership Agreement (IJEPA) to meet its national interests. IJEPA is: "IJEPA is bilateral cooperation in the economic field between Indonesia and Japan. IJ-EPA is a bilateral economic cooperation agreement between Indonesia and Japan signed on August 20, 2007, by President Susilo Bambang Yudhoyono and Prime Minister Shinzo Abe".

In meeting the needs of a country, certainly, those countries need help from other countries to support each other, namely by conducting bilateral and multilateral cooperation. Bilateral cooperation between Indonesia and Japan leads us in efforts to form economic cooperation in the growth of domestic industries through the Economic Partnership Agreement (EPA) with Japan.

Based on the explanation of the theoretical framework above collaboration between the Government of Indonesia and the Government of Japan in the context of the Economic Partnership Agreement (EPA) in the field of Industry, the author make several assumptions, as follows:

1. With the cooperation of the Economic Partnership Agreement (EPA) between Indonesia and Japan, it will be able to fulfill the national interests of the two countries.

2. IJEPA cooperation is in Japan's interest in encouraging market liberalization in Indonesia.

3. The current condition of the Indonesian industry does require development under what is expected, especially entering the free-market competition for Indonesian citizens and citizens of the World.

With the agreement on the cooperation agreement in the industrial sector, one of them is market liberalization, namely the reduction of import duty that can improve the Indonesian economy.

D. Hypothesis

Based on the formulation of the problem and the theoretical framework above, the author can conclude a hypothesis as follows: "With the implementation of collaborative programs between the Government of Indonesia and the Japanese Government in the Economic Partnership Agreement (IJEPA) in the field of the industry under mutual interests, the implications for industry in Indonesia can be

profitable and beneficial." If it goes back to the theory used by the author, from the cooperation of the two countries, the creation of cooperation is certainly interdependent and mutually beneficial.

E. Purpose of Research

The purpose of this research to describe, analyze and clarify symptoms based on research from several studies systematically, factually, about facts, traits and the relationship between phenomena. And then the analyzed becomes conclusions. These conclusions in describing the impact of the contribution of Indonesia and Japan's cooperation in economic as research subjects. To facilitate the author in completing this thesis and can be accounted for in writing, the objectives to be achieved are. To understand the background and motives for forming economic cooperation between countries. To know the trade relations between Indonesia and Japan within the framework of IJEPA. Also the benefits of both parties within the framework of the Indonesia-Japan Economic Partnership Agreement (IJEPA), especially for Indonesia and to know about industrial development in Indonesia after cooperation with Japan in the context of IJEPA.

F. Scope of Research

This undergraduate thesis examines the partnership Indonesia-Japan condition. The scope of this undergraduate thesis is "The Impact of Indonesia-Japan (IJEPA) Toward Indonesia Competitiveness the Manufacturing Industry Development Center (MIDEC) in 2014-2018" and this undergraduate thesis is also explaining the background and history of the Indonesia-Japan Economic Partnership.

G. Research Methods

To get data and information, in this writing the author will use qualitative methods. The author tries to find data and information about the Indonesia-Japan Economic Partnership. The source will be divided into which are primary sources and secondary sources. In this research, the author uses a literature

study to support the data collection process, namely by searching data through books, newspapers, internet, journals, articles and sources relating to the problem that the author examined. The level of analysis used in this study is the State / Nation level because the author examined at the country level, namely Indonesia and Japan. Therefore, the subjects that play a role in this case study are at the State / Nation level.

H. Outline

In general, the writing of this thesis is divided into five chapters. The discussion that stumbled in chapter one with other chapters is related to one another. So, in the end, it will form coherent and systematic writing. The systematic writing is as follows:

Chapter I contains an introduction describing how this is done, containing sub-chapters consisting of research background, problem identification, problem limitation, research objectives and uses, theoretical framework and hypotheses, operationalization of variables and indicators, theoretical framework schemes, levels analysis, research methods which consist of data collection techniques, locations and tables of research duration and end with systematic writing.

Chapter II discuss the description or information about history of bilateral relations Indonesia between Japan and forms of coopertation Indonesia and Japan.

Chapter III contains a description or general information about the history, basic objectives, principles, and sectors in Indonesia-Japan Economic Partnership Agreement.

Chapter IV discuss, describe and answer the hypotheses and research indicators that have been described in the data processing.

Chapter V is a conclusion that is the final part of this research report as well as the final attitude of the author regarding the problems in it. In addition to conclusions about

the results of the study, the author also conveyed the results of thoughts in the form of recommendations that are expected to be useful for those who need it later.