

Developing Strategy to Improve Market Access: Indonesia-US FTA*)

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Abstraksi

Prinsip-prinsip dasar kepentingan didalam merangkai hubungan perdagangan bilateral antara dua negara yaitu Indonesia dan Amerika Serikat adalah lebih ditujukan kepada landasan kerja sama perdagangan yang saling menguntungkan. Tawaran serta permintaan yang dapat diintegrasikan bersama secara spesifik dan dapat menunjang pertumbuhan ekonomi masing-masing.

Free Trade Agreement (FTA) Indonesia-Amerika Serikat diharapkan dapat menciptakan suasana kesepakatan yang disebut sebagai Kebebasan dalam perdagangan atau Freer Trade, keadilan di dalam perdagangan atau Fair Trade. Landasan filosofi “Freer Trade” dan “Fair Trade” perlu dicarikan formulasi/rumusan bersama terlebih dahulu guna mencari jawaban bahwa perdagangan bilateral yang dituangkan di dalam agreement nantinya tidak menjadi hambatan baru bahkan sengketa perdagangan didalam kerangka perdagangan bebas, sehingga perlu adanya pembicaraan bersama atau kajian bersama (Joint Study).

FTA Indonesia Amerika Serikat akan memberikan fungsi penting sebagai alat penjamin manakala secara tiba-tiba terjadi perubahan kebijakan perdagangan kedua belah pihak. FTA Indonesia Amerika Serikat juga berfungsi sebagai kepastian “Market Access”, masing-masing sebagai mitra dagang, serta bagi dunia usaha yang akan membangun komitmen untuk berbagai investasi baru.

*) Tulisan ini merupakan ringkasan dari Judul Penelitian Kajian Kemungkinan Dibentuknya Free Trade Agreement Indonesia-Amerika yang dilaksanakan pada Tahun Anggaran 2005 pada Puslitbang Daglu dimana penulis adalah bertindak sebagai koordinator Tim Penelitian tersebut.

**) Atase Perdagangan RI di China.

FTA Indonesia AS diharapkan akan memperkecil ketimpangan yang selama ini dirasakan oleh pihak Indonesia sebagai negara berkembang. Anggapan adanya ketimpangan antara negara maju dan negara berkembang yang secara tradisi ditandai dengan tingkat ekonomi maupun teknologi yang berbeda menyolok. Tingkat ketergantungan (dependence) Indonesia terhadap AS akan sangat mempengaruhi posisi tawar.

Perdebatan di forum Kongress Amerika Serikat yang mengagendakan free trade agreement sering dikaitkan dengan permasalahan lain seperti: lingkungan hidup, pelanggaran hak asasi manusia, pelanggaran hak cipta, patent, politik dan lain-lain dan sering bersifat sepihak atau unilateral. Tak urung masalah ini akan menjadi beban berat bagi negara-negara mitra dagang yang sebenarnya tidak terkait langsung dengan masalah bisnis. Di wilayah yang lebih bersifat teknis banyak hal yang sulit dipenuhi oleh negara-negara berkembang untuk mengimbangi perilaku negara-negara maju. Amerika Serikat telah banyak menguasai masalah- masalah "Intellectual Property Right" yang mana hal paradoks tergambar atau mewakili ketertinggalan negara-negara berkembang/miskin.

1. Background

Indonesia and the United States (US) have a strong bilateral trade relation. In goods sector, the United States is Indonesian second largest exports market. Meanwhile, trade inservices between Indonesian-the US witnesses a trade deficit for Indonesian.

In terms of long term investment, US investment is not yet a major investor for Indonesia. The share of US investment is rather small compare to Japan and European Union and and shows a decreasing trend overtime.

Although the bilateral trade between the two countries is on the rise in the past two years, further improvement of trade relation is important for a sustained trade relation. The United States has actived in negotiating a free trade area bilaterally with several countries including some of South East Asian countries. Singapore has successfully concluded its Free Trade Area negotiation with the US, while Thailand is currently in process. On the other side, Indonesia is in competition with some of the US FTA

partners/potential partners. Thailand, for example, is one of Indonesian major competitor in the US market followed by China (James 2004).

The recent development on one hand and attempts have explore ways to improve Indonesian trade performance in general, have made Indonesian government to consider to engage in free trade area with the US.

2. US-Indonesia Bilateral Trade

In 2004, Indonesian merchandise exports to the US were about US\$11.6bn, about 15 percent of Indonesian total exports. Indonesia also imports relatively significant amount of goods. In 2004, Indonesian merchandise imports from US were about US\$ 3.2 bn resulted in a trade surplus for Indonesia. Services trade between Indonesian- the US witnesses a trade deficit for Indonesian. The Ministry of Finance services data analysis centre reported a US\$0.8 trade deficit for 2004.

2.1. Indonesian export to US and market access impediments

Indonesian export to the US market is relatively limited range of products. Which covers 1710 items, 33 percent of all HS 5 digit lines. The Majority of exports, about 94 percent of total exports, comprise of 300 commodities. The remaining 6 percent is filled by more than 1400 commodities.

The Competitiveness of Indonesian export products to the US market

Table. 1. Commodities facing high market growth

Product	Product Name	X to US 2004	US market growth	US Tariff	NTM
270119	Coal, whether or not pulverised, bu	50,858.99	62.81	-	#N/A
401519	Gloves :- Other	49,009.97	41.38	5.67	#N/A
620432	Jackets and blazers :- Of cotton	10,472.68	33.20	6.10	Labelling requirements
852190	Other	316,310.32	27.53	-	#N/A
620212	Overcoats, raincoats, car-coats, ca	5,114.54	26.36	6.65	Labelling requirements
180320	Wholly or partly defatted	10,653.08	25.96	-	#N/A
520524	Single yarn, of combed fibres :- M	7,230.44	24.20	9.90	#N/A
610891	Other :- Of cotton	10,534.18	21.05	8.50	Labelling requirements

Note. High growth: 20-70 percent

The United Nations Statistical Division (UNSD) Commodity Trade (COMTRADE) Database is used to calculate the competitiveness index. Since import data is more reliable than export data, the import data is used as a mirror figure for calculating the indicators. The HS 1996 data from year 2000 – 2004 is used for Audysis.

Employing the Constant Market Share Analysis (CMSA), there were 145 Indonesian exports commodities which were competitive in the US market, accounted for 52 percent of Indonesian total exports. Some competitive products relatively have high market growth in the US market including coal, gloves, jacket and blazers, overcoats, raincoats and car-coats and yarns as in Table 1. However, some of them are currently facing high tariffs (higher than 5 percent) and labeling requirements, which impeded the potential penetration of these commodities to the US market.

Table 2. Competitive products having modest market growth

Product	Product Name	X to US 2004	US market	US Tariff	NTM
481011	Paper and paperboard of a kind used	26,684.63	16.69	-	#N/A
400122	Natural rubber in other forms :- T	868,854.89	13.30	-	#N/A
310210	Urea, whether or not in aqueous sol	6,962.94	12.55	-	Antidumping duty
400121	Natural rubber in other forms :- S	30,439.83	12.13	-	#N/A
030342	Tunas (of the genus Thunnus), skipj	22,116.10	11.71	-	Product characteristics requirements for human health protec
620211	Overcoats, raincoats, car-coats, ea	8,944.23	11.28	-	Labelling requirements
190530	Sweet biscuits, waffles and wafers	15,248.30	11.05	-	Product characteristics requirements for human health protec
847050	Cash registers	33,136.61	10.88	-	#N/A
271129	In gaseous state :- Other	36,574.45	10.30	-	#N/A
852540	Still image video cameras and other	277,719.38	14.20	1.05	#N/A
041000	Edible products of animal origin, n	9,738.41	11.75	1.10	Product characteristics requirements for human health protec
854390	Parts	9,490.38	18.26	1.49	#N/A
392390	Other	17,867.85	17.73	3.00	#N/A
392321	Sacks and bags (including cones) :-	17,910.89	15.13	3.00	#N/A
392329	Sacks and bags (including cones) :-	13,773.30	13.62	3.00	#N/A
160510	Crab	104,778.14	14.57	3.75	Product characteristics requirements for human health protec
030614	Frozen :- Crabs	7,769.65	11.47	3.75	Authorization to protect wildlife
290544	Other polyhydric alcohols :- D-gluc	5,303.34	10.13	4.90	Antidumping duty
392051	Of acrylic polymers :- Of polymeth	6,924.30	15.00	6.25	#N/A
620292	Other :- Of cotton	24,990.09	17.92	6.50	Labelling requirements
620452	Skirts and divided skirts :- Of co	19,472.01	19.27	8.10	Labelling requirements
690890	Other	54,974.82	10.72	8.50	#N/A
520523	Single yarn, of combed fibres :- M	9,289.80	16.36	8.60	#N/A
550951	Other yarn, of polyester staple fib	8,087.49	18.20	10.15	#N/A
611420	Of cotton	4,893.24	17.15	10.80	Labelling requirements
610462	Trousers, bib and brace overalls, b	9,628.82	16.17	12.60	Labelling requirements
610230	Of man-made fibres	7,836.41	14.47	16.75	Labelling requirements
610130	Of man-made fibres	7,459.76	18.43	16.90	Labelling requirements
610343	Trousers, bib and brace overalls, b	46,957.79	11.78	21.55	Labelling requirements
611241	Women's or girls' swimwear :- Of s	36,115.17	12.99	24.90	Labelling requirements

Notes: modest growth: 10-20 %

Table 2 shows that some competitive products, where US market grows by 10 to 20 percent, face market access impediments, tariff as high as 24 percent and numerous non tariff measures.

Given Indonesian competitiveness and growing import demand in the market, it is expected that FTA between Indonesia and the US will improve Indonesian exports performance.

Indonesian leading exports and its performance to the US market

The list of the top 20 export products having a good performance based on export share are among others LNG, petroleum oils, coal, natural rubbers, plywood, copper ores and concentrate, shrimps, wooden furniture, video camera (HS852540), paper and paperboard (480252) and footwear (6402399).

Chart 3 shows Indonesian top 20 leading commodities. The chart reveals that Indonesian petroleum oils, plywood consisting solely of sheets, other wooden furniture,

Chart 1. Indonesian top 20 leading exports 20 exports, their performance in the US

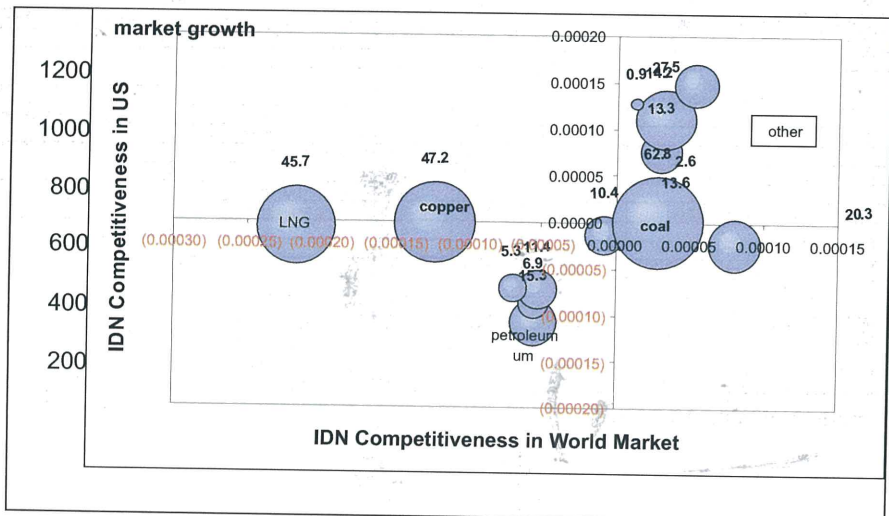
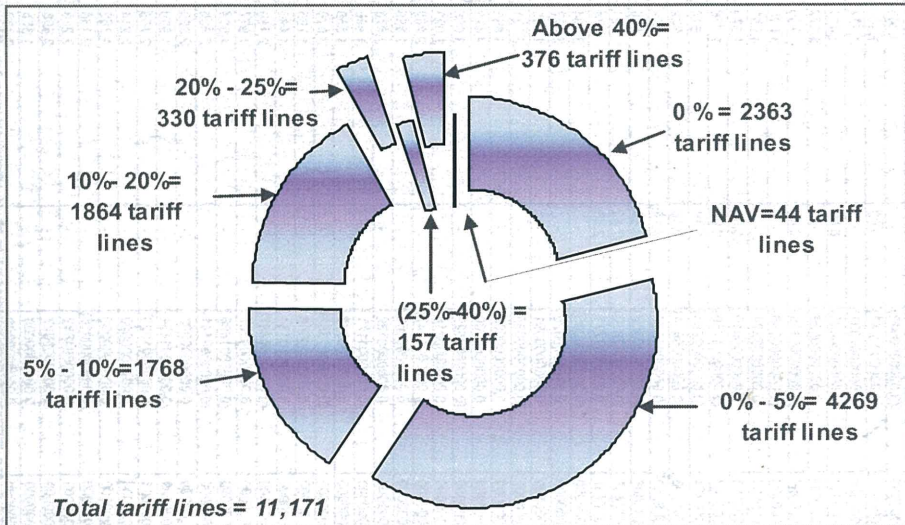


Chart 2. US Tariff Structure



other footwear, storage units, coal, other paper and paperboard, Liquefied :— Natural gas are not competitive in the US market , while the import demand in the US for those commodities remains positive, even high for energy products (coal and petroleum). The ones remains competitive includes crude oil, Copper, ores and concentrates, nickel mattes, coal, natural rubber in other forms frozen shrimps and prawns and still image video cameras and other. Most of them, facing growing demand in the US, except crude oil and nickel mates.

These top performers face relatively low barrier in the US market, Which have import tariff in the US market as low as 2.5 percent on average. Non tariff barriers for those commodities exists in the form of anti dumping and authorization related protection to human life.

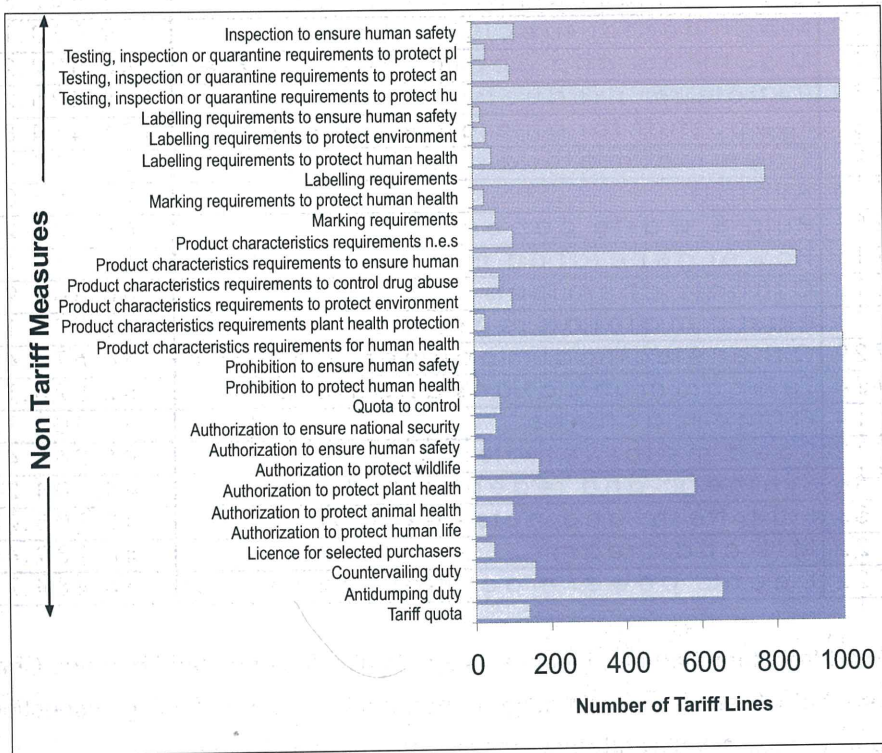
Market Access Impediments: tariff and non tariff barriers

In general, US import tariff is relatively low, 3.7 percent on average. Chart 4 shows that 77 percent of US tariff lines are already in the range 0- 5 percent, 15 percent in the range 5-10 percent.

Table 3. Commodities facing tariff 20 percent and higher

Product Name	Av. Export to US	Av. Export to World	US market growth	competitiveness US	competitiveness world	Rank by market size in US	US tariff	NTB
630229 Other bed linen, printed -- Of oth	0.935	279.038	22.07	0.0000000000	(0.0000000542)	-	3,643	29.8
621320 Of cotton	2.577666667	56.2764	9.07	0.0000000007	(0.0000000041)	0.02	1,394	25
846610 Tool holders and self-opening die	3.393	100.5662	3.61	(0.000000029)	(0.0000000331)	-	4,537	26.4
731590 Other parts	3.553	7.30025	1.84	0.0000000031	(0.0000000003)	0.02	1,401	25
731420 Grill, netting and fencing, welded	4.107	31.0584	5.19	0.0000000000	0.0000000026	-	3,972	20
521223 Weighing more than 200 g/m2 -- Dye	8.3365	361.768	8.97	0.0000000060	(0.0000000115)	0.42	730	20.2
722220 Bars and rods, not further worked t	32.123	167.5348	(1.98)	0.0000000000	(0.0000000248)	-	3,895	28.2
841280 Other	33.126	924.8642	6.34	0.0000000000	0.0000002374	-	4,251	350
901730 Micrometers, callipers and gauges	34.227	63.4568	(10.77)	0.0000000163	0.0000000019	0.02	1,379	25
391390 Other	68.54925	655.471	14.73	(0.0000000347)	(0.0000001758)	0.05	1,236	20
620520 On a base of paper or paperboard on	160.3632	2488.6674	9.09	0.0000000354	(0.0000002683)	0.19	919	25.55
680520 On a base of paper or paperboard on	168.2488	1436.9474	2.80	0.0000001738	(0.0000000614)	0.18	832	131.8
901780 Other instruments	443.0302	746.5674	11.58	(0.0000008980)	0.0000001657	0.16	952	25
850410 Ballasts for discharge lamps or tub	964.9288	25874.2744	4.08	0.00000031608	(0.0000000358)	0.60	659	350
290544 Other polyhydric alcohols-- D-glic	1638.2546	23607.5382	10.13	0.0000010405	(0.0000002870)	37.82	21	79.08
392390 Other	11028.5536	16814.8724	17.73	0.000017737	0.0000007171	2.08	374	25
530529 Of abaca -- Other	#N/A	17.403	(60.84)	0.0000000000	(0.0000000005)	-	3,404	25
282520 Lithium oxide and hydroxide	#N/A	6.884333333	(38.55)	0.0000000000	0.0000000026	-	2,427	163.8
030360 Cod (Gadus morhua, Gadus ogac, Gadu	#N/A	1501.48575	(38.28)	0.0000000000	0.0000000091	-	1,805	77.78
292141 Aromatic monoamines and their deriv	#N/A	34.5975	(35.88)	0.0000000000	(0.0000000035)	-	2,721	20
722211 Bars and rods, not further worked t	#N/A	31.394	(18.95)	0.0000000000	0.0000000003	-	3,893	37.5
283010 Sodium sulphides	#N/A	1.895	(16.91)	0.0000000000	0.0000000000	-	2,460	20.83
610429 Ensembles -- Of other textile mate	#N/A	332.741	(9.98)	0.0000000000	(0.0000000529)	-	3,605	37.5
110620 Of sago or of roots or tubers of he	#N/A	297.7556	(4.70)	0.0000000000	0.0000000216	-	2,023	23.45
252020 Plasters	#N/A	673.0536	(3.13)	0.0000000000	(0.0000001647)	-	2,282	24.65
070521 Chicory -- Willoof chicory (Cichor	#N/A	#N/A	(2.89)	0.0000000000	0.0000000000	-	1,886	58.33
320611 Pigments and preparations based on	#N/A	261.7096	(0.95)	0.0000000000	0.0000000132	-	2,878	25.9
071029 Leguminous vegetables, shelled or u	#N/A	3380.3334	(0.34)	0.0000000000	0.0000001171	-	1,906	24.9
847420 Crushing or grinding machines	#N/A	139.6734	0.56	0.0000000000	0.0000000078	-	4,558	20
391190 Other	#N/A	641.6396	0.81	0.0000000000	(0.00000001388)	-	3,070	38.89
020736 Of ducks, geese or guinea fowls --	#N/A	#N/A	2.52	0.0000000000	0.0000000000	-	1,765	30.7
090910 Seeds of anise or badian	#N/A	34.6248	2.90	0.0000000000	0.0000000131	-	1,980	27.88
283529 Phosphates-- Other	#N/A	157.29	3.45	0.0000000000	(0.0000000887)	-	2,489	20
081400 Peel of citrus fruit or melons (inc	#N/A	31.4232	3.74	0.0000000000	0.0000000207	-	1,977	28.2
902920 Speed indicators and tachometers; s	#N/A	727.6112	3.86	0.0000000000	(0.0000001886)	-	4,904	26.4
293732 Other hormones and their derivative	#N/A	58.34033333	4.36	0.0000000000	(0.0000000141)	-	2,800	28.2
110720 Roasted	#N/A	#N/A	4.94	0.0000000000	0.0000000000	-	2,026	25.03
080119 Coconuts -- Other	#N/A	2861.7196	5.04	0.0000000000	(0.0000001684)	-	1,929	22.8
293100 Other organo-inorganic compounds.	#N/A	937.3562	13.09	0.0000000000	(0.0000001023)	-	2,755	23.5
220860 Vodka	#N/A	#N/A	15.82	0.0000000000	0.0000000000	-	2,214	22.2
020733 Of ducks, geese or guinea fowls --	#N/A	#N/A	17.50	0.0000000000	0.0000000000	-	1,762	21.56
170211 Lactose and lactose syrup -- Contia	#N/A	13.781	17.58	0.0000000000	(0.0000000015)	-	2,136	27.64
230120 Flours, meals and pellets, of fish	#N/A	2689.726	19.12	0.0000000000	0.0000000482	-	2,219	22.4
310310 Superphosphates	#N/A	9.624333333	20.89	0.0000000000	0.000000027	-	2,856	28.2
040891 Other -- Dried	#N/A	77.546	54.27	0.0000000000	0.0000000000	-	1,855	21.55
262020 Containing mainly lead	#N/A	#N/A	#NUM!	0.0000000000	0.0000000000	-	2,330	350
071110 Onions	#N/A	#N/A	#NUM!	#DIV/0!	0.0000000000	-	5,010	26.39
530830 Paper, yarn	#N/A	#N/A	#NUM!	#DIV/0!	#DIV/0!	-	5,082	21.88

Chart 3. US Non Tariff Measures



Although in general US tariff is already low, there are at least 50 items having high tariffs (above 20 percent) of which only 17 of Indonesian commodity are managed to export, but the value is Quite small. The CMS results show these commodities, are competitive in the world market but can not export in significant amount to the US.

Table.4. US major exports to Indonesia, 2004 (US\$ 000)

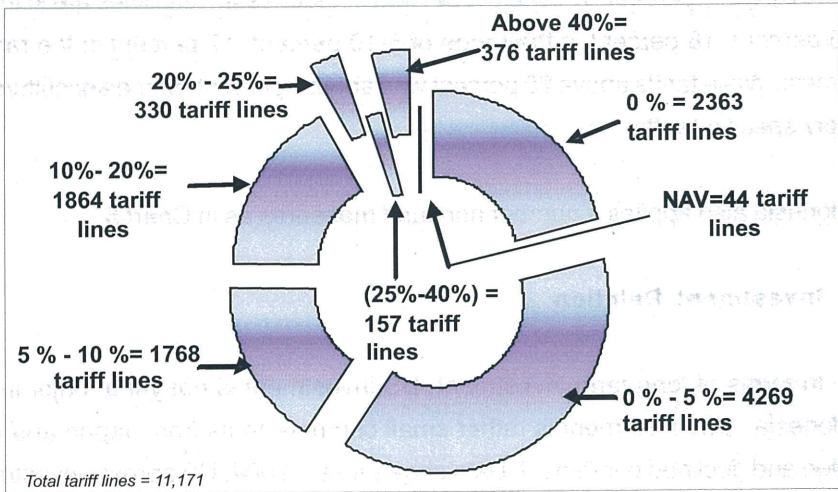
263	Cotton	287,932.18
221	Oil-seeds, oil nuts and oil kernels	273,542.34
718	Machines for special industries	179,130.10
719	Machinery and appliances-non elec	148,522.23
332	Petroleum products	135,426.20
81	Feed.-stuff for animals excl.unmill	106,414.81
599	Chemical materials and products,ne	90,014.81
734	Aircraft	73,686.05
251	Pulp & waste paper	68,736.24
711	Power generating machinery, other	67,359.70
512	Organic chemicals	66,465.96
581	Plastic materials,regenerd.cellulos	65,277.12
729	Other electrical machinery and app	56,671.45
724	Telecommunications apparatus	52,525.11
714	Office machines	49,306.72
732	Road motor vehicles	46,265.43
266	Synthetic and regenerated-artificia	44,704.28
51	Fruit, fresh, and nuts - excl. oil	43,105.70
22	Milk and cream	40,739.46
722	Electric power machinery and switch	36,484.71

Apart from tariff barriers, Indonesia exports also face non tariff barriers. Chart 5 showed that US applies a wide range of non tariff measures. Testing, inspection or quarantine requirements and standards are the most popular ones.

2.2. US exports to Indonesia and existing impediments in Indonesia

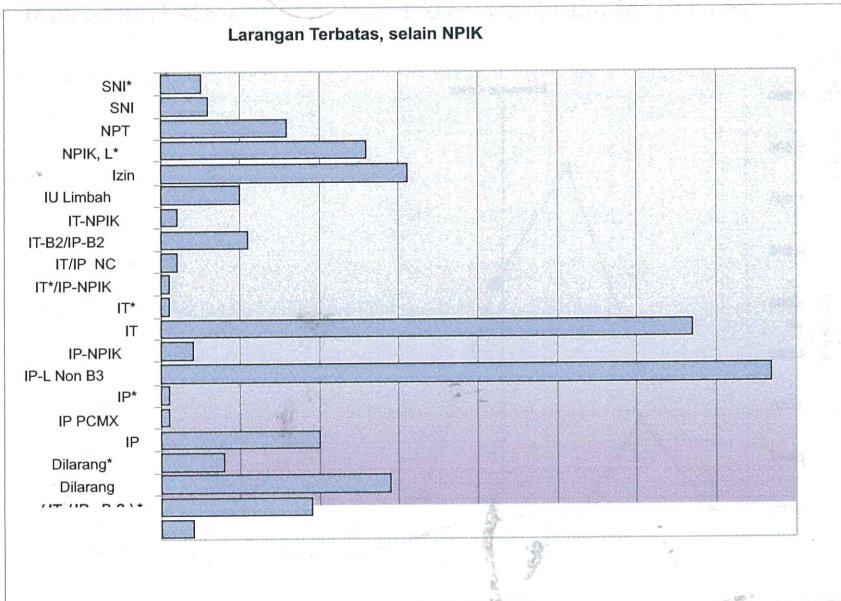
Indonesian imports from US is about US\$ 3.2 bn in 2004, the top 20 leading commodities outlined in Table 4. Indonesia major imports from US are among others cotton, oil-seeds and machineries.

Chart 4. Indonesian Tariff Structure, 2004



Market Access Impediments: Tariff and Non-tariff Barriers

Chart 5. Indonesia Non Tariff Measures



Source. MOF Indonesia, BTBMI 2004

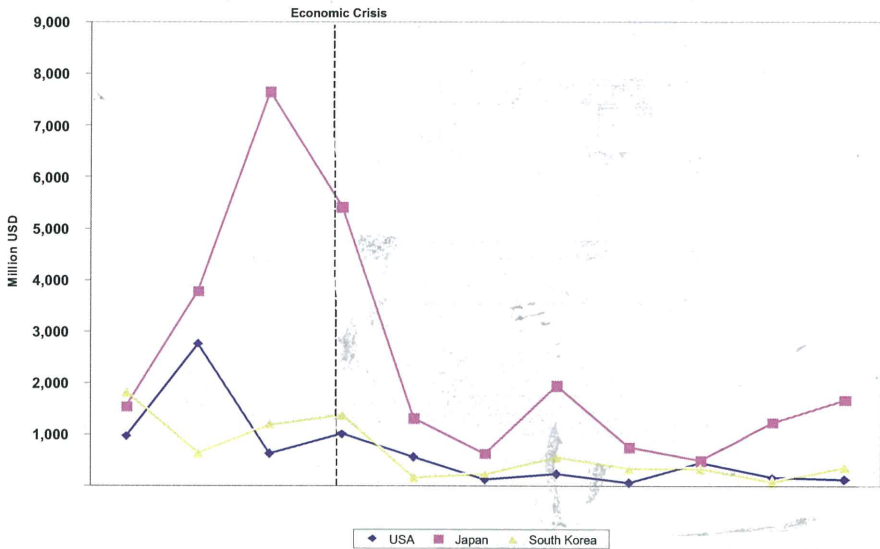
Indonesian trade regime is not as open as the US market. Indonesian average tariff is about 7 percent. Thirty eight percent of Indonesian tariff lines are in the range of 0-5 percent, 16 percent in the range of 5-10 percent, 17 percent in the range 10-20 percent. While tariffs above 20 percent was about 7 percent. Some agriculture products apply specific tariffs.

Indonesia also applies a number non tariff measures as in Chart 5.

3. Investment Relation

In terms of long term investment, US investment is not yet a major investor for Indonesia. US investment is rather small compare to its from Japan and European Union and declined overtime. It Data shows that in 2004, US aproval investment in the non oil and financial sectors in Indonesia, is about US\$0.13 bn while Japan’s investment, the biggest investor in Indonesia is about US\$1.7bn.

Chart 6. US approved investment in Indonesia (1994-2004)



Source. BKPM

Table. 5. US approved FDI in Indonesia (1995-2005)

	New		Expansion		Change of Status		TOTAL	
	Project	Value (000 USD)	Project	Value (000 USD)	Project	Value (000 USD)	Project	Value (000 USD)
1995	34	2,171,520	9	291,645	2	281,395	45	2,744,560
1996	50	317,123	19	324,744	3	17,768	72	659,635
1997	28	554,916	9	461,130	4	1,866	41	1,017,912
1998	41	286,853	22	277,216	3	1,781	66	565,850
1999	41	54,677	13	68,013	6	20,101	60	142,791
2000	48	134,431	15	32,660	7	69,396	70	236,487
2001	33	21,665	12	61,486	4	4,589	49	87,740
2002	34	348,170	11	19,883	6	100,501	51	468,554
2003	27	58,107	12	147,041	4	6,529	43	211,677
2004	21	98,022	6	31,729	4	3,532	31	133,283
2005	39	14,268	10	54,798	2	235	51	69,301

Source. BKPM

The Chart also shows that since the crisis, US foreign direct investment in Indonesia declines overtime. In 1995, US approved investment reached US\$ 2.7bn, in 2004 approved FDI reached as lows US\$133 million. In contrast to pre crisis patterns where investment mainly in the form of new investments, in the post crisis period, it can be in the form of new investment, expansion of the project and change in status (injecting capitals to the existing companies which is not foreign companies).

US investment in Indonesia goes to secondary (manufacturing sectors) and tertiary sectors (services). In 2004, US investment to manufacturing sectors accounted about 71 percent of total US investment in Indonesia, while investment on the services sector accounted about 26 percent.

4. US- Indonesia FTA: CGE Modelling Result¹

Engaging in bilateral FTA with the US is expected to improve Indonesian market access to the US market and make imported goods from US relatively cheaper. This would allow for increased trade flows between the two countries. Although US applies relatively low tariff, non tariff measures prevalent. Secondly, FTA is expected to lower the price

¹ This section was drawn mostly from *Kajian Kemungkinan Dibentuknya Free Trade Agreement Indonesia-Amerika Serikat, Pusat Penelitian dan Pengembangan Perdagangan Luar Negeri, Departement Perdagangan, 2005*

of imported services. This consequently means reduced cost to domestic producers and cheaper price for consumers in general. Thirdly, FTA is also expected to open US jobs market for temporary Indonesian labor under Mode 4. Fourthly, FTA is also expected to increase US investment in Indonesia.

FTA will also bring some (negative) consequences for Indonesia. Firstly, tax revenues might be shrinking due to the elimination of import tariff. Secondly, domestic producers will face increased competition which would lead to the exit of inefficient domestic producers.

We apply GTAP model to measure the impact of bilateral trade liberalization with the US, liberalization of good markets in particular.

Database and Simulation

Based on GTAP model 2001 with 87 countries and 57 sectors on GTAP model 2001 with 87 countries and 57 sectors, countries are grouped into Indonesia, Japan, India, China, ASEAN, US, EU, NAFTA and rest of the world. Meanwhile, sectors are not aggregated.

This assessment is based in two different scenarios, which are:

Scenario 1: Import tariff is cut to 0 % for all those 57 commodities in US and Indonesia for its respective FTA partner.

Scenario 2: Import tariff is cut to 0% for non agriculture commodities for both countries and tariff on dairy products, automotives and steels at 0 % in the US.

The Results

The discussion on the results is limited to change in GDP, trade balance, welfare and sectoral impact.

Tabel 6. Impact on GDP (% change)

Country	Scenario 1	Scenario 2
Indonesia	1.869	1.870
USA	-0.021	-0.022
Uni Eropa	-0.001	0.000
ASEAN	-0.030	-0.029
NAFTA	-0.022	-0.022
Jepang	-0.003	-0.002
India	-0.016	-0.015
China	-0.054	-0.054
ROW	-0.006	-0.005

Impact on GDP

Eliminating tariffs resulted in increased in GDP by 1.87 percent for Indonesia in both scenarios, while for the US the free trade area gives consequences of slightly lower GDP, a decline of 0.02 percent. The rest of the world will also got negative impacts on their GDP, as in Table 6.

Tabel 7. Impact on Trade Balance (US \$ M)

Country	Scenario 1	Scenario 2
Indonesia	141.797	146.926
USA	-100.920	-97.690
Uni Eropa	-48.998	-52.182
ASEAN	30.485	30.537
NAFTA	12.857	12.257
Jepang	52.736	49.176
India	-0.350	-0.326
China	-145.184	-144.517
ROW	57.577	55.819

Impact on Trade Balance

Cutting tariff into 0 % will make Indonesian trade balance increased by US\$ 141.8M in Scenario 1 and US\$ 146.9M in scenario 2, while for the US its trade balance declined by US\$ 100.9M in scenario 1 and US\$97M in scenario 2. EU, India and China also experience a decline in their trade balance. While other countries experienced an increase in their trade balance.

Impact on Economic Welfare

Table 8 showed that Indonesia is the single economy in the world which will benefit from this trade liberalization scheme. Economic welfare increased by US\$637M, while the rest of the world will experience a declining economic welfare.

Tabel 8. Impact on Economic Welfare (US \$ M)

Country	Scenario 1	Scenario 2
Indonesia	637.872	635.344
USA	-329.047	-340.855
Uni Eropa	-101.533	-98.898
ASEAN	-110.544	-109.645
NAFTA	-46.689	-44.437
Jepang	-61.002	-56.184
India	-48.595	-48.040
China	-181.302	-180.359
ROW	-98.857	-92.534

Sectoral Impact

As an economy, Indonesia will benefit from this trade liberalization scheme. However, the gains is due to the huge expansion of limited sectors: textile and garment, which

Tabel 9. Sectoral Impact

Sector	Output (%)		Import (%)		Export (%)		Trade Balance (US\$ bn)	
	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2
	Paddy	-0.04	-0.02	5.76	5.05	-10.12	-9.60	-0.51
Wheat	-1.95	-1.82	-1.36	-1.37	-1.94	-1.82	5.51	5.59
Cereal	-0.91	-0.88	0.76	0.63	-1.94	-1.80	-1.07	-0.90
Veget	-0.28	-0.27	3.29	1.75	-0.95	-3.11	-8.35	-8.13
Oilseed	-2.11	-2.22	0.31	0.17	8.60	-1.07	0.24	-0.73
Sugarcane	-0.20	-0.19	2.72	2.56	-3.43	-3.71	-0.01	-0.01
Plant	3.66	3.73	10.45	10.44	-10.60	-10.81	-73.46	-73.42
Crops	-1.43	-1.55	2.57	1.42	-2.18	-2.58	-40.32	-47.91
Cattle	0.10	0.12	2.40	2.31	-3.22	-3.06	-2.08	-2.00
Animlprod	0.22	0.25	2.93	2.15	-2.72	-2.65	-3.32	-2.82
Rowmilk	-0.87	-0.85	1.77	1.74	-5.33	-5.07	-0.02	-0.02
Wool	1.61	1.67	12.25	9.77	-16.19	-15.80	-0.36	-0.32
Forest	-4.41	-4.41	-3.25	-3.33	-2.25	-2.25	-4.00	-3.97
Fish	-0.42	-0.42	1.44	1.35	-2.41	-2.41	-2.60	-2.60
Coal	-1.07	-1.07	-0.19	-0.18	-0.98	-0.98	-15.17	-15.17
Oil	-0.95	-0.95	0.35	0.35	-1.59	-1.59	-52.99	-53.19
Gas	-1.02	-1.02	0.61	0.61	-0.96	-0.96	-26.01	-26.14
Minrlnec	-2.60	-2.60	-2.10	-2.09	-1.81	-1.81	-8.56	-8.55
Meat	0.95	0.95	37.02	37.02	-11.87	-11.85	-27.94	-27.94
Meatprod	0.30	0.31	10.35	10.28	-11.71	-11.60	-31.55	-31.27
VegOil	-4.24	-4.22	6.90	6.87	-10.32	-10.27	-119.19	-118.61
Dairy	0.01	0.12	2.38	2.18	-10.73	-10.74	-17.50	-16.80
Rice	-0.02	-0.01	5.58	5.45	-3.31	-3.06	-10.10	-9.83
Sugar	-0.20	-0.19	5.30	5.25	56.89	57.08	1.31	1.42
FoodProd	-1.39	-1.39	5.92	5.93	-4.47	-4.47	-121.14	-121.34
Baverg	0.10	0.11	3.23	3.21	-3.54	-3.51	-7.12	-7.08
Textils	11.36	11.37	12.43	12.43	0.94	0.95	-154.27	-154.20
WearApp	35.17	35.18	25.60	25.60	42.88	42.88	2,071.05	2,071.26
Leather	55.56	55.57	46.20	46.20	61.38	61.39	1,765.77	1,766.09

Wood	-5.73	-5.73	1.41	1.40	-7.19	-7.19	-346.40	-346.41
Paper	-5.53	-5.53	-0.07	-0.07	-7.98	-7.98	-214.33	-214.34
Petrol	-0.36	-0.36	0.60	0.60	-1.09	-1.09	-17.13	-17.18
Chemical	-2.14	-2.13	3.21	3.22	-6.33	-6.31	-469.60	-468.96
MinriProd	-2.22	-2.23	0.54	0.53	-3.97	-3.97	-32.10	-32.02
FerroMetl	-3.46	-3.36	-0.51	-0.71	-6.30	-6.38	-17.02	-14.25
MetlNec	-10.41	-10.41	-5.42	-5.43	-10.74	-10.74	-173.73	-173.58
MetlProd	-3.58	-3.69	3.66	3.73	-7.93	-8.18	-68.34	-70.13
MtrVehicl	-1.51	-1.36	3.16	2.45	-7.54	-7.95	-79.11	-68.62
TransEqp	-5.00	-5.05	1.23	1.21	-9.28	-9.39	-43.85	-43.76
ElecEqp	-10.34	-10.35	-0.47	-0.47	-11.13	-11.15	-824.88	-826.28
Machine	-4.46	-4.48	-1.60	-1.62	-5.96	-5.99	-92.76	-92.49
Manufc	-6.62	-6.65	5.89	5.89	-11.01	-11.07	-147.26	-147.96
Electry	-1.24	-1.24	4.06	4.06	-8.39	-8.39	0.00	0.00
GasManuf	-1.07	-1.07	3.24	3.25	-6.61	-6.62	-0.44	-0.44
Water	0.78	0.78	1.39	1.40	-9.96	-9.96	-0.57	-0.57
Construct	1.40	1.38	5.01	5.00	-6.16	-6.18	-8.61	-8.63
Trade	-0.23	-0.23	3.16	3.15	-8.23	-8.23	-99.42	-99.40
TransNec	-1.05	-1.05	2.28	2.28	-5.40	-5.41	-47.76	-47.88
SeaTrans	-1.99	-1.99	1.04	1.04	-2.49	-2.50	-10.09	-10.12
AirTrans	-1.54	-1.54	2.57	2.58	-5.13	-5.14	-35.03	-35.10
Communct	-0.28	-0.28	3.03	3.03	-8.04	-8.05	-6.26	-6.26
FinanceServ	0.48	0.48	4.19	4.19	-7.84	-7.85	-17.69	-17.70
Insure	-0.48	-0.48	3.90	3.90	-8.03	-8.03	-28.52	-28.52
BusnServ	-1.83	-1.83	1.09	1.09	-7.09	-7.09	-109.56	-109.60
Recreat	-0.10	-0.09	3.69	3.68	-6.85	-6.83	-46.05	-45.92
PubAdm	-0.45	-0.45	4.16	4.16	-8.32	-8.32	-37.92	-37.94
Dwelling	0.31	0.32	0.31	0.31	0.31	0.31	0.00	0.00

are now sunset industries. The rest of Indonesian economies will negatively affected. The details of sectoral impact is presented in Table 9.

5. Recent Issues of US-Indonesia Trade Relation

Exchange views on the possibility of bilateral US-Indonesia Free Trade Agreement have been conducted by TREDA-MOIT at the end of 2005 with USTR, USDA, Dept. of Commerce, Business Associations and International Institute of Economics (IIE) in Washington D.C. has told their interests as follow:

In principle, US industrial entrepreneurs raised their concerns over several issues:

- Concerns over investment climates:
- US businessmen investors are looking for at least forty years or more as the assurance for their long-term investments.
- Indonesian efforts to improve transparency and stability
- Fair and equal treatment
- Corruption issues
- FTA should not only trade in goods but also services
- US agricultural policy is very protective, especially sugar industry.

Various Critical FTA and Trade Issues

1. Agricultural issue remains the most sensitive issues for both countries.
 - There are two step needed to be carried out in agricultural discussion with the US: a) First Phase: Pre-Emptive Action to determine the problems; b) Second Phase: Conducting communications with the US-Embassy in Indonesia.

- Close relationship with the USDA is important in understanding technical standards. Any regional / bilateral agreement especially in agricultural products according to the Codex Standards is on the interest of the US side.
2. The importance of having joint study on SPS (Sanitary and Phyto Sanitary) and the TBT (Technical Barrier to Trade) in Working Groups to start an "initial discussion".
 3. There are some problems of importation facing by the US seafood importer companies on shrimps/prawn Indonesia's origin among others:
 - a Accusation of transshipment prawn from China. It has been known the PR of China is a nonmarket economy. So the US government has imposed tariff by 112%. However in case of Vietnam, they only set up the tariff by 4.5%.
 - b) Issue of antibiotic residue (e.g. Chloramfenikol, furan, malacadine, flurokuinon), in prawn products. Since the USDA apply the "zero tolerance" to residue of antibiotic in prawn product (farmed shrimp), hence Indonesia prawn product is not possible to access the US market.
 - c). US Consumer Research indicates that the farmed shrimp contain the antibiotic, 17% among other things contain the chloramfenicol. US Seafood Importers of the Indonesian shrimp have to pay the tariff 112% (more less US\$7, 6 million). It is because the prawn product imported is associated as product of China, which has been transshipped through Indonesia.
 4. Intellectual Property Rights (IPR) also represents the significant issue, especially to the US pharmacy industry operating in Indonesia.
 5. On liberalizing service sector, the likely request for Indonesia is to have a "positive list" method and openness in government procurement. Specifically on disputes settlement for state-owned government, the US side suggested the importance of independent arbitrage.

6. Strategy to Enhance Market Access and Investment with the US

Based on the data and information has mention above, we propose a set of program on trade diplomacy and promotion should be done as follows

1. Since agricultural issue remains the most sensitive issues for both countries (US-Indonesia), we should have a close relationship with the USDA. It is important in understanding technical standards.
2. Proposing a joint study on SPS (Sanitary and Phyto Sanitary) and the TBT (Technical Barrier to Trade) in Working Groups.
3. Pursuing a close relation with export/import associations as well as industrial assosiations related to the products which have potential export and have possibility to penetrate the US market.
4. Promoting balance information on the Intellectual Property Rights (IPR) issues such as progress of law enforcement has been made by Indonesian Government to US business communities.
5. Established closer relationship with government people of related departments such as USTR, USDA, Dept. of Commerce, and Business Associations, in Washington D.C.
6. Intensify market intelegence activities.
7. More specific identification for each merchandise sector upon exporter's request.
8. Enhance promotion access to US market, so we can develop better relationship with Indonesian exporters by providing them with information needed.