



RPM FEUI HOTOPIC

Indonesia on TPP: to join or not to join

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During his visit to the US, Presiden Joko Widodo has told Barack Obama that Indonesia will join the Trans-Pacific Partnership (TPP). This not-so-simple statement has clearly made growing concern at home. This is quite understandable since one might see our domestic competitiveness which is not on par with the existing member countries. But I would rather see this as the way to increase our industrial competitiveness in the future. In international economics the concepts of

comparative advantage and specialization play important roles when deciding what to produce and how international trade should take place. More importantly, it is well recognized that countries gain more when they trade products and services with greater added value and when they develop sustainable production and supply chains with a long-term vision. The TPP will be expected to reduce the cost of exporting, increase competitiveness of the domestic firms, and promote fairness. The agreement will eliminate tariffs, lower service barriers, and increase transparency while also increasing competitiveness and establishing enforceable labor and environmental obligations.

The TPP is made up of 12 countries: Australia, Canada, Japan, Malaysia, Mexico, Peru, the U.S., Vietnam, Chile, Brunei, Singapore and New Zealand. These countries work together to increase trade, exports and jobs in each represented country. TPP includes 30 chapters covering trade and trade-related issues, beginning with trade in goods and continuing through customs and trade facilitation; sanitary and phytosanitary measures; technical barriers to trade; trade remedies; investment; services; electronic commerce; government procurement; intellectual property; labour; environment. These chapters are meant to ensure that TPP fulfils its potential for development, competitiveness, and inclusiveness; dispute settlement, exceptions, and institutional provisions.

In a world polluted with voluntary export restraints, administered protection, and a strong tendency toward the formation of trading blocs, the difference between discriminatory and nondiscriminatory liberalization may be blurred. Thus, joining TPP may be the key to achieving specialization and to increase output. From the documents we can conclude that TPP ensure the member countries from all level of development to be at the same level of playing field. As it includes commitments to help small- and medium-sized businesses understand the agreement and take advantage of its opportunities. It also includes specific commitments on development and trade capacity building, to ensure that all parties are able to meet the commitments in the agreement and take full advantage of its benefits. The TPP Parties will publish all tariffs and other information related to goods trade to ensure that small- and medium-sized businesses as well as large companies can take advantage of the TPP. Moreover TPP can go far beyond trade liberalization with intraregional labor mobility, foreign direct investment, and financial-capital flows that will play an increasingly important for the member countries.

How about the welfare effect of joining the TPP? Based on the projection made by the Peterson Institute for International Economics, Vietnam to be among the biggest winners with the agreement potentially boosting GDP by 11 percent by 2025, with exports growing 28 percent in the period as companies move factories to the low-wage country. The second biggest is Malaysia that will have an increased GDP up to 5 percent by 2025. Electronics, chemical products, palm oil and rubber exporters are among the biggest beneficiaries in Malaysia. Moreover, if TPP include more countries into the deal, the welfare effect will increase persistently. One of the major argument that can explain this positive phenomena for Vietnam and Malaysia lies through the differences in productivity between countries. These countries will then specialize in the production of commodities in which they possess a comparative advantage. With the differences in the distribution of factors of production, the member countries specialize in commodities which are intensive in the factor of production which they possess in relative abundance. With Vietnam and Malaysia as the biggest gainers in TPP, Indonesia should have tagged along and entered the TPP without hesitation.

For Indonesia, TPP represents an opportunity to participate in one of the most important trade agreements globally and certainly the most important trade agreement in the Asia-Pacific region in terms of size and impact. As we seek to open new export markets, integrate trade, and support the creation and retention of high-quality jobs, by increasing exports in a region that includes some of the world's most robust economies and that represents nearly 40% of global GDP

There might be a short run adjustment for domestic industry as also suggested by the report. Inefficient industries will be collapsing and employment will occur, but the long run positive impact will be high enough to more than compensate the short run lost.

What will happen if Indonesia delay in joining TPP? Now we move on to the next framework, Baldwin's domino effect theory. Considering we have two major actors here, which are pro-membership and anti-membership nations. The pro-membership nations will gain preferential access by joining the TPP. On the other hand, the anti-membership nations will be marginalized. Having said this, the shock resulted from nation's decision of not joining the TPP is a direct consequences from the trade diversion effect. In general, trade diversion means that a free trade agreements diverts trade, away countries outside the agreement, towards supplier within the agreements. In some cases, trade diversion will reduce a country's national welfare. This in turn will force the policy makers to join the existing agreement eventually. As the membership expands,

the incentive to join the trade agreements becomes more attractive even for those who previously found the political optimal decision by staying out. But one should bear in mind that late comers cannot have the biggest pie as the model suggest.

TPP as a process of Regionalism is clearly the second best. The ultimate goal will be undoubtedly the WTO which is a totem of multilateralism. The departures from multilateralism create the so called “spaghetti bowl effect”. The term was originally introduced by Jagdish Bhagwati by stressing on the rules of origin which he found FTA as source of problems since it created the scheme of production network that would not be consistent with the principle of economic efficiency. He described this as crisscrossing lines and likened these strings of lines to strands of spaghetti tangled in a bowl. Fortunately, TPP can coexist with other international trade agreements between the Parties, including the WTO Agreement, bilateral, and regional agreements. To wrap up, TPP will become significantly important for the region’s overall development at least for five reasons. First, in order to sustain region-wide economic growth; second, to have positive spillovers and better respond to global challenges; third, to create long-term stability and prosperity; fourth, to set up a stepping stone for poorer countries so that they can move up the value chain and maximize their growth potential; fifth, to be an important bridge between the interactions of individual member countries and the rest of the world.