



AUSTRALIA¹-ASEAN BUSINESS COUNCIL

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07FTA-IndonesiaSubm

Indonesia-Australia FTA Feasibility Study
Department of Foreign Affairs & Trade
RG Casey Building
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By Email:-

Indonesia.ftastudy@dfat.gov.au

Dear Sirs

The Australia-ASEAN Business Council expresses its in-principle support for the proposition of an Indonesia-Australia Free Trade Agreement but questions whether this is the appropriate time for strenuously pursuing such an agreement, especially pending the conclusion of the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA).

World economies should be placing appreciably more strenuous efforts into achieving an early successful outcome of the Doha Round of Agriculture, Services and Investment negotiations because such would optimise the trade gains for all economies, however:-

- world trading blocs remain without the leadership to tackle obscene subsidies and support mechanisms and / or protectionism of special interests;
- Australia's agreements – negotiated and under negotiation – are all comprehensive and WTO Plus.

therefore, Australia should pursue regional and bilateral trade agreements with its strategic partners.

Strong political relations; growing people-to-people empathies; vital security and defence links together with substantial existing trade flows make Indonesia one of Australia's more important strategic partners and one with which we should want to develop a stronger trade relationship. If it is a realistic possibility that it would be successfully concluded, then an FTA should be pursued.

ASEAN Integration

In response to a spectrum of pressures ranging from demographics to globalisation the tendency to greater integration amongst the economies of East Asia is picking up pace. Therefore, Australia must engage with this process so as to integrate its economy more effectively into the East Asia region where the majority of its larger trading partners exist.

Australia is already engaged in a comprehensive negotiation with each ASEAN country and New Zealand regarding an ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA). Trade Ministers of all twelve countries at their meeting in Kuala Lumpur in August 2007 affirmed their desire to pursue such an FTA and tasked officials to complete the negotiations in time for it to be signed at their 29th August 2008 meeting in Singapore. Many political decisions regarding economic restructuring will have to be taken before this outcome will be realised. However, with resort to abundant goodwill and elaborate phasings schedules to permit adjustment, **not protection**, amongst sectors of the twelve economies, one retains hope in a successful outcome.

Trade gains arise in part from market access granted and received, but benefits are more substantial with and throughout the economy of countries that take significant structural reform.

As a regional grouping, the ten ASEAN members have with their recent signings of the ASEAN Charter and the ASEAN Economic Community Blueprint embarked on a multilayered integrated market by 2015. To realise this aspiration and timetable, each country will need to undertake substantial structural reform of their respective economies. The Blueprint prioritises the necessary reforms. In some countries the amount of transformation will be disruptive. When one reflects upon the fatigue regarding change already evident under the pressures of globalisation, then strong and compassionate leadership is required if ASEAN's 2015 aspirations are to be realised.

The Australia-Indonesia Commerce

Australia's completed FTAs, and those under negotiation, are all comprehensive and also WTO Plus. A bilateral FTA with Indonesia would need to be both WTO Plus and AANZFTA Plus as it would have to add value to the regional agreement if it is to be pursued.

Indonesia's actions, as represented by its present offerings under the Doha Round for goods and services, fall well short of what is necessary to ready its industry and broader economy to be globally competitive.

- Australian exporters of goods face significant uncertainty under the differential between the average bound rate, at 37.5 per cent, for 93.2 percent of all tariffs under the WTO and the much lower average applied rate (11.8 percent on Agricultural products and 9.2 per cent on non-agricultural products) because there is no legal impediment against raising the applied towards the bound rate;
 - Non tariff barriers are important for some products, for instance import licensing restrictions apply to 141 tariff lines;
 - Poor transparency of regulations and administration in Indonesia also has an impact on prospects for developing trade and is an important non-tariff barrier;
- Regarding services, Indonesia's overall Uruguay Round commitments and Doha Round offers cover only 34 percent of all services sectors. There are very extensive reservations retained in its market access and national treatment commitments, including limits on foreign equity and nationality requirements. Australian businesses operating in the education, legal services, accountancy, architectural, financial, telecommunications, management, construction, and computer services could all demonstrate that Indonesia is amongst the most restrictive of the ASEAN economies with respect to their area of activity;

Business regulation, uncertainties regarding the interface with the three tiers of government, labour and bankruptcy regulations, and infrastructure limitations are amongst the constraints to greater Australian investment in Indonesia despite recent reforms to improve the investment environment.

Is an FTA the most appropriate means of improving trade for both countries in the short term?

Unless **both sides** intend to engage, within a reasonable timeframe, in negotiations for a comprehensive WTO Plus and AANZFTA Plus agreement that comprehensively covers trade in goods, services, investment, etc, etc, then arguably **we should not risk an aborted negotiation**. Any aborted outcome would be portrayed by an economically illiterate and populist media, channeling the general resentment against disruption and change, as Australian arrogance and paternalism towards its neighbor and generate negative commercial sentiment not only in Indonesia but more widely within the region.

Encouraging Increased Commerce

Emotion must be taken out of the political decision to proceed, or not, with an FTA which must not compromise the successful negotiation of the AANZFTA **and its subsequent implementation.**

One alternative is a Trade and Investment Framework Agreement, via which both governments could affirm their desire to encourage greater linkages and opportunities for increased commerce by nominating, say ten, areas where they would seek to increase investment, reduce barriers to trade in goods and services and even build AANZFTA Plus outcomes within an annually reviewed period of say three-five years. After this time, and from this experience, a FTA could be explored with substantially more confidence of success.

Such areas could include:-

- Customs cooperation and paperless trading;
- Investment promotion;
- Supply chain logistics;
- Information technology and e-commerce;
- Mutual recognition of professional qualifications;
- Standards and technical barriers to trade;
- Competition policy;
- Intellectual Property;
- Vocational skills training;
- Food issues;
- Financial services.

Conclusion

The bilateral trade in goods, services, and investment relationship does not match the potential that would be expected with the largest economy of ASEAN. The Council believes that a premature Indonesia-Australia Free Trade Agreement negotiations risks damage to a most significant strategic relationship and counsels against the launch of such a negotiation at this time.

Because of the significance of the relationship, then, it is important that both sides flag their commitment to encouraging greater commercial links. Consequently, as a supplement to the new linkages opened by a successfully completed AANZFTA, and as an interim step towards a confident FTA negotiation, the Council recommends consideration of alternatives to an FTA negotiation for the immediate present. A Trade and Investment Framework Agreement is suggested as an intermediate option.

Yours sincerely,

Paul Gallagher

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