THE WORLD TRADE ORGANIZATION (WTO) RULES AND REGULATION: A THREAT OR PROMISE TO INDONESIA’S AGRICULTURAL POLICY?

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Abstrak

Artikel ini bertujuan untuk memahami kemungkinan perkembangan ekonomi Indonesia terutama pada pertanian mengacu pada jejak kebijakan pencapaian kemakmuran WTO. WTO adalah organisasi berstruktur formal yang peraturannya mengikat secara hukum bagi negara anggotanya. Organisasi ini menyediakan kerangka hukum perdagangan internasional. Indonesia telah menjadi bagian dari keanggotaan WTO sejak 1995. Namun, kesepakatan tersebut tidak selalu sesuai dengan kebijakan ekonomi domestik khususnya sektor pertanian.. Dengan menggunakan metode kualitatif, artikel ini menyimpulkan bahwa dalam sekuritisasi ekonomi yang luas, produk pertanian sebenarnya telah terbengkalai oleh pelaku sekuritisasi (pemerintah Indonesia) untuk memenuhi kebutuhan dasar mereka dalam menyeimbangkan ketidaksetaraan antara orang kaya dan orang miskin. Lebih jauh lagi, metode ekonomi tradisionalis Indonesia tidak sesuai dengan prinsip ekonomi neoliberal karena keragaman sosial dan demografis.

Kata Kunci: Agrikultur, Indonesia, Neoliberalism, World Trade Organization

Abstract

This article aims to understand the possibility of Indonesia’s economic development particularly on agriculture follow WTO’s policy track into greater prosperity. The WTO is a formally structured organization whose rules are legally binding on its member states. The organization provides a framework for international trade law. Indonesia has been part of WTO membership since 1995. However, the agreement does not always compatible with domestic economic policy particularly on agricultural sector. By using qualitative method, this article concluded that in a broad economic securitization, agricultural products actually have been neglected by securitizing actors (Indonesian government) to fulfill their basic needs in balancing the inequalities between rich and poor. Furthermore, Indonesia’s traditionalist economic method is incompatible with neoliberalist’s economic principle due to social and demographic diversity.

Keywords: Agriculture, Indonesia, Neoliberalism, World Trade Organization
Introduction

The ideology of Economic Security in International Relations—or the so-called International Political Economy (IPE)—perhaps has been emerging as a popular issue since the collapse of Soviet Union in 1991 (Krasner, 1996). The traditionalist-military issue and state-centered view in International Security that was taken as a standard analysis during the Cold War has altered into new levels of analysis and adding up to a wider construct of scrutiny in security studies. Subsequently, the Post-Cold war era has deconstructed the international system from military and state-centered view into a new realm of Economic, Societal and Environmental sectors (Buzan, et al.:1-5). Therefore, there is no way for international relations studies in any term to observe only at narrow scope of analysis of particular issue. In fact, since the demise of Soviet Union and the new era of multipolarity have begun, the establishment of numerous-basis Intergovernmental Organizations (IGOs) excluding North Atlantic Treaty Organization (NATO) marked the widespread of focus of analysis in International Security studies. One of the indications was the establishment of World Trade Organization (WTO) in 1995 as a new trade pact to replace General Agreements on Tariffs and Trade (GATT) to proactively arrange international trades (as a new phase of Mercantilism) and payments. It was essentially known as Bretton Woods system as a consensus in 1944 UN-sponsored conference (Khan, 2005).

As a consensus at the Uruguay Round Agreement on Agriculture in 1994 the WTO has a significantly broader scope than GATT (Anania, et al, 2004: 1). GATT regulated trade in merchandise goods. The WTO expanded the GATT agreement to include trade in services, such as international telephone service, and protections for intellectual property—that is, creative works that can be protected legally, such as sound recordings and computer programs. The WTO is also a formally structured organization whose rules are legally binding on its member states. The organization provides a framework for international trade law. Members can refer trade disputes to the WTO where a dispute panel composed of WTO officials serves as arbitrator. Members can appeal this panel’s rulings to a WTO appellate body whose decisions are final. Disputes must be resolved within the time limits set by WTO rules (Encarta, 2004). However, the WTO rules and regulations have marked a new level on International Political Economy notion on the relationship between IGOs and Nation-state behaviors to form a trade regime such as free-
trade, market liberalization, anti-dumping policy and commodities protectionism that can restrain the behavior of states and resulted in trade inequality (Saez, 2005). This unfair regime actually is a product of globalization-or theoretically Neoliberalism approach-on economic trade and many critics actually raised by the doubt of the effectiveness of this intergovernmental institution for the world’s prosperity.

In the context of Economic security, the nature of international political economy actually has a coherent relationship between anarchy and market. According to Buzan (1991: 235), the Neoliberalism-capitalist system where competition takes place may be considered as an obvious threat to the opportunities within the market especially in developing countries. In fact, the capitalist system works to shape market behavior-or states-as trade regime. Therefore, individuals and firms within the system can prosper only if they can compete efficiently against other entities in order to survive from bankruptcy. This market principle also can be applied to nation-states in search for economic security. In this particular case, Indonesia as traditionalist market adherent, is also affected by the WTO’s trade regime in international trade by trying to adapt with Neoliberalism-capitalist system in an attempt to gain profit as much as possible. However, many hesitations aroused to criticize Indonesia’s mixed capitalist-traditionalist economic approach to contribute to globalization. Therefore, this essay will attempt to discuss the relevant argument both for and against WTO’s rules and regulations in an effect to the Indonesia’s economic prosperity.

As reminder, since the 1997 currency crisis strike Indonesia and other Asian countries, Indonesia experienced a devastating political and security instability ever recorded on history. Jakarta was shattered by turmoil on anti-government movement against Suharto regime. The death toll caused by the riots in Jakarta neared 100 people while outside Java, the violence claimed more than 150 lives (Kingsbury, 1998: 240). Those anarchy situations instigated only by economic crisis and the inflation of US dollar over Rupiah currency in foreign exchange rate. Paradoxically, the economic crisis was actually begun since President Suharto signed an agreement with International Monetary Fund (IMF) in early year 1997.

As an International Economic Organization (Neoliberal Agent) that supposedly has a function to enhance economic welfare, IMF’s “intervention” to Indonesia economic policy has contributed nothing but uncertainty in a term of economic security. At that
time, IMF “provoked” Indonesia’s economic policy based on Neoliberalism principles in a form of structural adaptation policy through deregulation, market liberalization for the sake of market efficiency. Eventually, investments in urban area were so massive with skyscrapers and modern building but the hyper-pragmatic development practiced by Orde Baru system resulted in fragile economic and social structure especially in urban area and the lost of capital in Indonesian investment because of the policy of uncertainty dictated by IMF (Mas’oed, 2001).

Hypothetically speaking, Indonesia essentially had an arduous experience to materialize Neoliberalism economic principle on account of Indonesia’s market culture disparity toward globalization. Thus, since Indonesia also one of the WTO members, the question is; in a term of economic security, how effective do WTO rules and regulation can improve Indonesia’s economic development? In order to answer that question let’s take a brief look of how WTO works particularly in agricultural products as one of Indonesia’s most reliable economic resources.

The Existence of World Trade Organization (WTO) and Neoliberalism Regime in Indonesia

In principle, the WTO consensus states that the WTO’s objective (as cited in Adhikari and Athukorala, 2002: 4) is:

To provide a common institutional framework for the conduct of trade relations among its members … with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world’s resources in accordance with the objective of sustainable development. (WTO 1995: 1)

In an essence to that WTO consensus, actually WTO has a beneficial goal for its members’ welfare. Furthermore, the beneficial objective also brought by a term of economic interdependence among members states as a normal behavior to maximize their power capability and its effects on citizens’ welfare (Keohane and Nye, 1989: 32). Theoretically, the economic interdependence as yearned by WTO trade relationship was pioneered by the idea of Adam Smith’s classical economic liberalization. The principle was to put domestic market and price mechanism away beyond governmental policy or known as laissez-faire policies. It was evolved by The Chicago School of economics in a form of Economic Neoliberalism in the 1970s and eventually, during 1980s the agreement of Neoliberalism policies on “free” trade and the establishment of the “open” economy
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were approved in The Washington Consensus. In principle, the consensus was designed to restructure or adjust national economies to the dramatic changes to the world economy. For example, the policy of privatization as basis for strategies to reduce the size of the state and reduce the accumulated national debt while encouraging foreign investment also commitment of free market to uphold the efficiency of the market. Therefore, Neoliberalism principle of economy drives the state’s economic agenda into a primitive form of individualism that is “competitive”, “possessive” and interpreted in a term of “consumer sovereignty” as has been materialized in United States (US) and most of G-8 countries (Peters, 2001: 14-19). Regarding its accomplishment on recent US and Great Britain economic power, neoliberal “agents” such as World Bank, IMF and WTO have a task to promote neoliberal paradigm of economic policies and enacted in regional and international trade agreements that place no regulatory controls on global capital (Peters, 2001: 22). In that sense, Neoliberalism doctrine is considered as a proper economic principle for developing countries to participate an important role in globalization.

Historically, The WTO regulation on economic development implemented since the Uruguay Round in 1994 in Marrakesh, Morocco. In essence, there were various agreements ratified from Uruguay Round in 1994 such as The Agreement on Textile and Clothing (ATC), The Agreements on Technical Barriers to Trade, The Agreement on Antidumping and the most controversially was The Agreement on Trade-Related Aspects on Intellectual Property Rights (TRIPs). Particularly, the foremost problem that would be discussed on this essay is the regulation in agricultural products as Indonesia’s-and other developing countries-depend on.

In addition, the consensus on agricultural products created a trade mechanism to link reform to an international commitment to guard against possible slippage in response to domestic protectionist lobbies. Since then, WTO Ministerial Meetings have been held in every 4 years to discuss various agendas to develop the capacity of developing countries to implement the new international agricultural trade regulation are namely; “First, conversion of any type of Quantitative Restrictions (QRs)-as a protectionist policy-to tariff measure on agricultural products. Second, industrial country members must make a 36% tariff cut within six years. Third, the current import amount must be maintained. Fourth, as a trade remedy in this sector, a special safeguard measure may be introduced under certain condition and Fifth, domestic support must be reduced by 20% within six
years and export subsidies must be reduced by 36% in terms of expenditure on such subsidies”. (Adhikari and Athukorala: 3-8). As for developing countries, the Agricultural Trade Liberalization as a commitment in the Uruguay Round reform agenda contains three key areas: firstly, Market Access where all developing countries members “are afforded special and differential treatment that exempts them from the commitment to liberalize trade in any agricultural product that is a predominant staple in their traditional diet”. Secondly, Domestic Support provisions as “an agreement to distinguish between what constitutes trade-distorting support of agriculture from more general support of agriculture and rural development to be paid out of the government budget and not levied from consumers (the green box measures). However, developing countries may continue with the latter production support measures, provided the beneficiaries are low-income or resource-poor producers”. Thirdly, Export Subsidies provisions to “include all payments from the national budget that are contingent on export performance.

The consensus requires industrial countries to reduce the share of exports receiving subsidies by 21% and the expenditures on subsidies by 36% from base period (1988-1989) levels over a six-year period. The required reductions in subsidy levels and subsidy coverage for developing countries are 21% and 14% respectively, and these reductions are to be undertaken over a ten-year period” (Athukorala, 2002). In consequence to Indonesia’s economic growth on one particular agricultural product; palm oil, for instance. Indonesia is the world’s main producers and exporters of palm oil. According to the report by Grote et al (2002), the production of palm oil increased from 1.5 million tons in 1987 to around 4.5 million tons in 1996 (following Indonesia’s economic policy based on WTO agreement in 1995).

The plantation area more than tripled during this period, with further areas still available for expansion. The biggest increase in plantation area was actually begun since the last decade by privately owned estates-as materialized market liberalization-, followed by smallholders and government’s estates. The exports of palm oil have increased steadily since the mid-1980s, reaching million tons (US$ 1.5 billion) by 1997 as shown in figure below:

Figure 1. Development Of Palm Oil Exports, Volume And Value, 1988-1997
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According to that chart, we can see that post-Uruguay Round in 1994 in Indonesia’s agricultural product on palm oil had an effect to increase Indonesia’s GDP and income gradually since 1988 until 1997 and the coming years on account of WTO regulation on developing countries’ agricultural products that has been discussed previously. Presumably, one successfully attempt of the Neoliberalism principle was; the principle of laissez fairies where market privatization on palm oil private industry contributes to government’s budget efficiency and business competition boosts the GDP.

Furthermore, not only Indonesia at that time who had an advantages from WTO commitments, for example; since its acceptation to the WTO membership and materializing economic neoliberal doctrine, China’s roaring economy grew by 9.4 percent in the third quarter of this year, fuelled by surging exports, strong investments in infrastructure and solid retail sales (Barboza, 2005). Thus, the chart proved that Neoliberalism method promoted by WTO actually worked in increasing Indonesia’s economic development.

On the contrary, many scholars believe otherwise; Neoliberalism economic method promoted by Uruguay Round 1994 and manifested in WTO regulation has contributed to global financial market dependency and major economic crisis due to the incompatible between Indonesia’s traditionalists economic principle with Neoliberalism-capitalism doctrine (Adiningsih, 2001). Theoretically, as depicted by Gilpin (2000: 117-119),

Source: Directorate General of Estate Crops (Jakarta) data.
Indonesia is categorized as a country “with an imbalance in its international payments that may pursue such short-term expedients as drawing down its national reserves (a deficit country) or adding to its national reserves (a surplus country) such as US”. An international economic regime created by WTO, IMF, World Bank and other neoliberal “agents” may create an adjustment problem in materializing economic policy such as excessive currency inflation (as occurred to Rupiah against US$ in 1997). Eventually, Indonesia as debtor country must take measures that could eliminate the imbalances that are considerably more costly than others for states economies in an attempt to reach equilibrium in WTO’s regulation on free trades.

The uncertainty of the Uruguay Round in 1994 over its domination on agricultural policy actually can be perceived as a potential threat to Indonesia’s economic security. According to Buzan et al (1998: 95-98), economic security agenda consists of its principle to produce efficiencies on market securities, maintaining economic and political stabilities by handling the rich-poor gap (North-South Gap in terms of IPE), and lastly is how to maintain order and stability in a liberal international political economy with focus first on hegemons, regimes and institution. Furthermore, the economic security agendas emphasizes on issues such as the threat brought by economic dependencies on global market that could heighten the north-south financial inequalities and a threat of the dark side of capitalism and the open trading order in terms of illegal trade (such as WTO regulation on TRIPs).

Therefore, economic securitization is based on political decision held by Indonesia’s elites so that the apparent threat would not have spill over effect to other sectors-Military, Societal and Environment (Buzan et al, 1998: 109). However, the economic securitization agenda in Indonesia has been destabilized not only by political-building mistake committed by Orde Baru before 1998 but also provocation by IMF to push premature market liberalization which in reality undermines Indonesia’s traditionalist economic principle due to the incomprehensible of Indonesia’s demography condition, social system and local culture (Chaniago, 2001: 306-308).

According to a report by Evans (1999), since the implementation of IMF recommendation on Indonesia’s economic policy in 1997, Indonesia suffered current account deficit, excessive foreign borrowing, unsustainably fast growth, poor governance and the eventual presidential succession. Actually, those economic disaster famously
known as Krismon (Monetary Crisis) in Indonesia came after the assistance and the consultation with IMF. The crisis began with the closure of 17 banks as a result of the first IMF accord and secondly when the Soeharto family and its banking interests were able to wriggle free. Furthermore, Evans (1999) showed that the Krismon event in Indonesia in 1998 was similarly compared to the 1933 Great Depression in US. The economic crisis can be described in figure below:

**Figure 2. Annual rates of economic growth, 1962-1998 (%)**

![Graph of annual rates of economic growth, 1962-1998 (percentage)](image)


According to that figure, overall Indonesia’s economic growth actually had a sharp decrease since 1994 until 1998 (also following Uruguay Consensus and WTO regulation in 1994). It’s the reality that Indonesia has to face and until today the WTO regulation actually influences in Indonesia’s gradual economic shrinkage. Albeit some of positive outcomes in food and agriculture, as stated by Dillon (2001), consequences in balancing to the WTO regulation, from September 1998 to January 1999 food and agriculture policy lurched from one ad hoc decision to another; liberalized trade in all food stuffs, and the removal of fertilizer subsidies causing prices to double (in an attempt to liberalize agricultural product) that cause peasants could not afford fertilizer and results in meagre agricultural quality.

As a consequence, even though WTO has a compliment on agricultural export from developing countries over government export-subsidies, but still Indonesian local agricultural products could not compete against US or Europe agricultural products that are cheaper and better in quality.
Nevertheless, according to the latest official report from Central Statistics Agency (CSA), on overall Indonesia’s economic performance on industrialization in 2005 claimed that Indonesia’s economy grew 5.54% on year in the second quarter compared with 4.38% in the same period last year, thanks to rising Foreign Direct Investment (FDI). But the growth rate was below the average 5.94% forecast of eight economists polled by Dow Jones Newswires it was also below the revised 6.19% on-year growth for Indonesia (Dow Jones, 2005). Also, recent report said that Indonesia and other G-20 countries in the WTO summit in China 2005 formulated that in the first quarter of the year as private consumption was hurt by price hikes (especially oil crude) and unfixed international monetary system (G-20, 2005).

Apparently, another factor contributes to the problem of Indonesia’s agricultural product presumably caused by the government’s excessive concentration on building industrial sector and the mistreatment on agricultural sector by policy-makers. Therefore, in order to resolve the problem, Indonesian elites as the securitizing actors should sustain the needs for rural community on food and agriculture by providing technological innovation to Indonesian farmers and limiting the monopoly role of Bulog (National Logistics Board) that has management problem (Dillon, 2001).

On the other hand, the farm policy that is being discussed in WTO summit in Hong Kong currently is intended to complete most of the work for a global deal to reduce tariffs, quotas, subsidies and trade barriers. According to report by International Herald Tribune (Bradsher, 2005), critics have warned that the conference could produce little progress on negotiations while triggering street violence as protesters arrive from many countries, as occurred during WTO ministerial conferences in 1999 in Seattle and in 2003 in Cancún, Mexico. As far as the WTO summit is concerned, the dichotomy between growth countries (G-8) led by US and developing countries (including Indonesia) led by India and Brazil are still having an extreme gap.

The agricultural policy offered by US and EU actually have made fresh offers in the past three weeks to reduce agricultural subsidies and lower tariffs. Both sides have criticized each other's offers as inadequate, but the WTO's director general, Pascal Lamy, has said that each deserves serious consideration. Particularly controversial is the European Union’s insistence, under pressure from the French government, that no deal go beyond changes in the European farm program that were made in anticipation of a deal
in Cancún that never materialized. The European Union has also insisted that the deal is only valid on the condition that other countries agree to a list of additional trade rules, including a limit on the United States’ practice of shipping large quantities of food to poor countries as aid.

Thus, the French step to the agricultural policy considered as a small relief to Indonesia’s economic security concern. In my opinion, the only obstacle is that the quality agricultural product in each country is diverse. Different soil produce different result depends on the soil and weather condition. Therefore, if the WTO summit materializing French proposal toward trade rules and free trade on agricultural products, still Indonesia’s farm products could not compete against EU or US commodities.

**Conclusion**

To conclude, the WTO objectives consist of four key terms; “to set and enforce rules for international trade, to provide a forum to negotiate and monitor trade liberalization, to improve policy transparency, and to resolve trade disputes” (Anderson, 2001). In a term of economic securitization, actually Neoliberalism principles on economic development promoted by WTO are not corrupt in a whole. The figure in palm oil products previously shown Indonesia had a beneficial outcome in materializing Neoliberalism methods to agricultural product as a consensus in Uruguay Round in 1994. Thus, to a certain extent, economic securitization provided by government’s policies has a mutual impact on Indonesia’s economic growth.

However, in a broad economic securitization, agricultural products actually have been neglected by securitizing actors (Indonesian government) to fulfill their basic needs in balancing the inequalities between rich and poor. That is most likely explains why the Orde Baru bureaucracy put a lot of attention to industrial and physical building in urban area but abandoning potential resources on rural area. Other factor is that not only do the provocation committed by WTO toward Indonesia’s economic policies but also Indonesia’s policy-makers incompetence dealing with financial management such as seen in Bulog. Therefore, Indonesia’s traditionalist economic method is incompatible with Neoliberalism economic principle due to social and demographic diversity.

Theoretically, according to Robert Cox’s Critical Theory, the world is actually a time and space construction: an international system is considered as special construction
by powerful countries. Critical theory focuses on power and world domination. Thus, Critical Theory is seeking a knowledge for political purpose; to release human from political structure and “suppressing” world economy that is controled by hegemonic power (US capitalist power) (as cited in Jackson and Sorensen, 1999).

Therefore, coxian Critical Theory is a counter argument that could oppose neoliberalist principle in a term of Economic securitization. Furthermore, as argued by Stavenhagen (1997), the economic fall of the Third World countries is actually caused by the proposed ‘development models’ prolonged by the industrialised worlds. Therefore, industrial worlds have to responsible for the economic gap between north and south imposed by world financial intitution (WTO, IMF, World Bank). In fact, the The Third World countries suffers a lot as a consequences of laissez-faire principle, neoliberalist and command on economic policies that result in ‘maldevelopment. Finally, in a term of Coxian perspective, this ironic symptom would be so-called as “structural adjustment policies” that always encountered by the economically developing countries. Thus, the WTO and other Neoliberalist agents’ “structural adjustment policies” are still percieved as a threat toward Indonesia’s economic security due to market principle unsuitability.
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