

**Indonesia's Hesitance with AFTA and AFTA *plus*:  
A Political Economy Explanation**

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Although a prominent founding member of the Association of Southeast Asian Nations (ASEAN), Indonesia was hesitant about committing itself to permanent structures and agreements that would facilitate functional integration of their economies. In particular, Indonesia was resistant to market sharing, fearing that its market, by far the largest in ASEAN, would be swamped by the exports of its more competitive ASEAN partners.<sup>1</sup> Thus, Indonesia reluctantly agreed to accept in principle the ASEAN Free Trade Area (AFTA) contained in the "Framework Agreement on Enhancing ASEAN Economic Cooperation" signed in 1992. Although committed to AFTA in theory, Indonesia won a fifteen-year delay of the implementation of AFTA. The administration of President Megawati expressed reservations about the pace of liberalization with AFTA, and noted an interest in pursuing an emergency exit clause from AFTA commitments in general. However Indonesia fully implemented the final stage of its commitments under the AFTA on schedule on January 1, 2002,

Following the crisis, as part of the conditionality of IMF's Letter of Intent, Indonesia began dismantling its remaining trade barriers, but it still remains cautious, especially about the proliferation of ASEAN *plus* bilateral free trade agreements (BFTA). For example, in a conference (held on August 5, 2004) entitled, "Indonesia's Readiness to Face the Development of Free Trade Areas (FTAs) Formation", Indonesia's then Minister for Economic Co-ordination, Dorodjatun, commented that "the increasing number of BFTAs conducted by Indonesia's major trading partners would have to be observed closely as they would generate discrimination towards Indonesian products abroad."<sup>2</sup> Even the senior academics who traditionally support trade liberalization, expressed reservations about ASEAN-BFTA.<sup>3</sup> Chandra (2005) also notes growing differences between the government departments on the pace and directions of FTAs.<sup>4</sup>

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<sup>1</sup> Frederick and Worden (1993).

<sup>2</sup> Chandra (2005).

<sup>3</sup> The academics are Dr. Hadi Soesastro, Dr. Marie Pangestu, Prof. Lepi Tramidi and Dr. Umar Juoro. They expressed their sceptical views during interviews with Chandra. See Chandra (2005). Dr. Pangestu is the Minister for Trade in the current government.

<sup>4</sup> The ministry of trade, the ministry of industry and the foreign ministry are in generally in favour, where as officials at the national planning agency and the ministry of co-operatives, small and medium enterprises are sceptics. The reduction in tariff slowed considerably since the economic crisis of 1997-98; see Appendix 3.

Given Indonesia's commitments to free trade and its accelerated dismantling of trade barriers (sometimes unilaterally), the reservations about AFTA in general and AFTA-BFTAs in particular seem paradoxical.<sup>5</sup> This paper aims to examine the basis for Indonesia's fear for AFTA and AFTA *plus* BFTAs from a political economy perspective. It argues that Indonesia's cautious approach is due to its perceived lack of significant gains from regional free trade arrangements compared to the gains from multilateral trade liberalization. This is particularly problematic at a time of high level of unemployment and when Indonesia's competitiveness is under threat from other labour abundant ASEAN countries. The paper is organized as follows: Section I discusses the salient features of AFTA, followed by a discussion of Indonesia's role in and likely gains from AFTA. Section III draws political economy implications of FTAs for Indonesia, and Section IV contains concluding remarks.

### **Salient Features of AFTA**

The ASEAN Free Trade Area (AFTA) was initiated at the Fourth ASEAN Summit in Singapore in January 1992. It laid out a comprehensive program of regional tariff reduction, to be carried out in phases through the year 2008. This deadline was subsequently moved forward to 2003. Since then the program of tariff reductions was broadened and accelerated, and the member countries signed framework agreements for the intra-regional liberalization of trade in services, and for regional Intellectual Property Right (IPR) cooperation. An industrial complementation scheme designed to encourage intra-regional investment was approved, and discussions were held on creating a free investment area within the region. During the financial crisis of 1997-98, ASEAN reaffirmed its commitment to AFTA, and as part of a series of "bold measures," agreed that the original six AFTA signatories would accelerate many planned tariff cuts by one year, from 2002 to 2003. In line with ASEAN's commitment to trade a host of "AFTA *Plus*" activities – bilateral free trade agreements (BFTA) between ASEAN and non-ASEAN countries – were initiated, including efforts to eliminate non-tariff barriers and

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<sup>5</sup> For comprehensive reviews of Indonesia's trade policies, see Aswicahyono and Anas (2004), and Vanzetti, McGuire and Prabowo (2005).

quantitative restrictions, and harmonize customs nomenclature, valuation, and procedures, and develop common product certification standards.<sup>6</sup>

When the AFTA agreement was originally signed, ASEAN had six members (Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand). Viet Nam joined in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. All four countries were required to sign on to the AFTA agreement in order to join ASEAN, but were given longer time frames in which to meet AFTA's tariff reduction obligations.

The main method of achieving the AFTA objective is adoption of the Common Economic Preferential Tariff (CEPT) scheme to reduce tariffs on all on goods traded within the ASEAN region, which meet a 40% ASEAN content requirement, until they reached 0 to 5%. When it was first initiated, the Inclusion List of the CEPT scheme contained 41,147 tariff lines. Around 3,321 tariff lines were placed on a Temporary Exclusion List and another 523 tariff lines were permanently excluded from tariff reductions. The inclusion list of CEPT expanded to 53,144 tariff lines (accounting for 83% of tariff lines). The initial CEPT list excluded agricultural products and services, but all unprocessed agricultural products were included in 1994.

ASEAN members have the option of excluding products from the CEPT in three cases: (1) Temporary exclusions; (2) Sensitive agricultural products; (3) General exceptions. Temporary exclusions refer to products for which tariffs will ultimately be lowered to 0-5%, but which are being protected temporarily by a delay in tariff reductions. This is permissible under the AFTA agreement, and is spelled out under a Protocol Regarding

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<sup>6</sup> ASEAN *plus* began with the proposal by China during the 2001 ASEAN-China Summit in Bandar Seri Begawan, Brunei to establish an ASEAN-China Free Trade Area with ten years. Within one year, at the Summit meeting in Phnom Penh (Cambodia) in November 2002, the leaders were ready sign a Framework Agreement on Comprehensive Economic Cooperation (CEC) which included a FTA. This was followed by ASEAN-Japan Comprehensive Economic Partnership (CEP) (signed in October 2003), ASEAN-India CEC (also signed in October 2003) and ASEAN-Republic of Korea Comprehensive Cooperation Partnership (CCP) (signed in November, 2004). There is also AFTA-CER (Closer Economic Relations between Australia and New Zealand) which was first established as early as September 1995, and revisited in September 2001. The US "Enterprise for ASEAN Initiative" was announced by President Bush during APEC meeting in Mexico in 2002. See, Soesastro (2005) for discussions on ASEAN plus FTAs. See Appendix 1 for ASEAN Free Trade Agreements and Regional Trade Agreements (as of October, 2006).

the Implementation of the CEPT Scheme Temporary Exclusion List. Malaysia invoked this protocol in 2000, delaying tariff reductions on completely-built-up automobiles, and automobile knock-down kits, in order to protect its local auto industry.

General Exceptions refer to products which a country deems necessary for the protection of national security, public morals, the protection of human, animal or plant life and health, and protection of articles of artistic, historic, or archeological value. Approximately one percent of ASEAN tariff lines fall into this category.

The tariff reductions have been moving ahead on both the "fast" and "normal" tracks, and tariffs on goods in the fast track were largely reduced to 0-5% by 2000 (Table 1). Tariffs on goods in the normal track were reduced to this level by 2002, or 2003 for a small number of products. By 2003, the CEPT scheme covered nearly 98 percent of all tariff lines in ASEAN (Table 2); only products in the General Exceptions category and sensitive agricultural products are not included in the CEPT Scheme. The small number of sensitive agricultural products has an extended deadline until 2010 for their integration into the CEPT scheme. In the longer term, the ASEAN countries have agreed to enact zero tariff rates on virtually all imports by 2010 for the original signatories and by 2015 for the four newer ASEAN members.<sup>7</sup>

Table 1: Average CEPT Rates of AFTA, 1993-2003

Country	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Brunei D.	3.78	2.64	2.54	2.02	1.61	1.37	1.55	1.26	1.17	0.96	1.04
Indonesia	17.27	17.27	15.22	10.39	8.53	7.06	5.36	4.76	4.27	3.69	2.17
Malaysia	10.79	10	9.21	4.56	4.12	3.46	3.2	3.32	2.71	2.62	1.95
Philippine	12.45	11.37	10.45	9.55	9.22	7.22	7.34	5.18	4.48	4.13	3.82
Singapore	0.01	0.01	0.01	0.01	0	0	0	0	0	0	0
Thailand	19.85	19.84	18.16	14.21	12.91	10.24	9.58	6.12	5.67	4.97	4.63
<b>ASEAN6</b>	<b>11.44</b>	<b>10.97</b>	<b>10</b>	<b>7.15</b>	<b>6.38</b>	<b>5.22</b>	<b>4.79</b>	<b>3.64</b>	<b>3.22</b>	<b>2.89</b>	<b>2.39</b>
Cambodia								10.39	10.39	8.89	7.94
Lao PDR						5	7.54	7.07	7.08	6.72	5.86
Myanmar						2.39	4.45	4.43	4.57	4.72	4.61
Vietnam				0.92	4.59	3.95	7.11	7.25	6.75	6.92	6.43
<b>ASEAN10</b>				<b>7.03</b>	<b>6.32</b>	<b>4.91</b>	<b>5.01</b>	<b>4.43</b>	<b>4.11</b>	<b>3.84</b>	<b>3.33</b>

Source: ASEAN Secretariat

<sup>7</sup> Viet Nam by 2006, Laos and Myanmar by 2008 and Cambodia by 2010.

Table 2: AFTA: Common Effective Preferential Tariff (CEPT) List for 2001

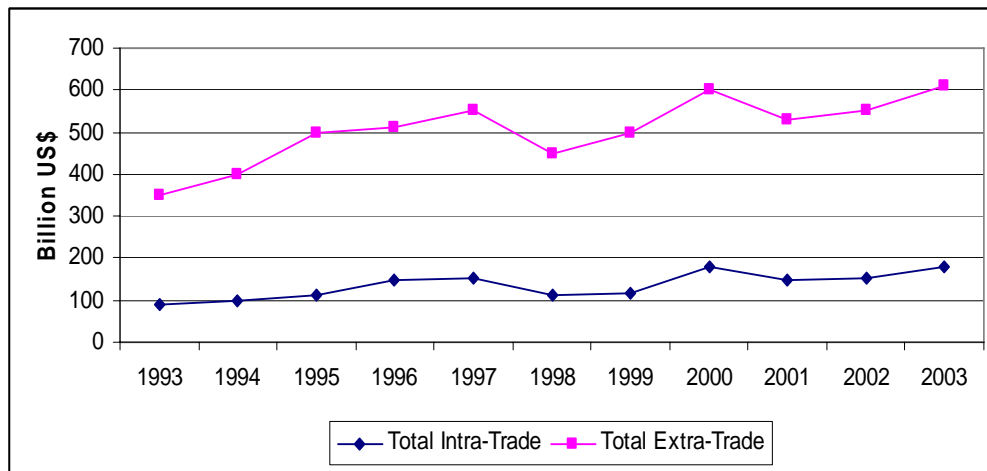
Country	Inclusion List	Temporary Exclusion List	General Exception List	Sensitive List	Total
Brunei	6,284	0	202	6	6,492
Indonesia	7,190	21	68	4	7,283
Malaysia	9,654	218	53	83	10,008
Philippines	5,622	6	16	50	5,694
Singapore	5,821	0	38	0	5,859
Thailand	9,104	0	0	7	9,111
<b>ASEAN-6 Total</b>	<b>43,675</b>	<b>245</b>	<b>377</b>	<b>150</b>	<b>44,447</b>
<b>Percentage</b>	<b>98.26</b>	<b>0.55</b>	<b>0.85</b>	<b>0.34</b>	<b>100</b>
Cambodia	3,115	3,523	134	50	6,822
Laos	1,673	1,716	74	88	3,551
Myanmar	2,984	2,419	48	21	5,472
Viet Nam	4,233	757	196	51	5,237
New Members Total	12,005	8,415	452	210	21,082
<b>Percentage</b>	<b>56.94</b>	<b>39.92</b>	<b>2.14</b>	<b>1.0</b>	<b>100</b>
<b>ASEAN TOTAL</b>	<b>55,680</b>	<b>8,660</b>	<b>829</b>	<b>360</b>	<b>65,529</b>
<b>PERCENTAGE</b>	<b>84.74</b>	<b>13.40</b>	<b>1.28</b>	<b>0.55</b>	<b>100</b>

Source: ASEAN Secretariat

Although there is a lot of enthusiasm about AFTA, a number of observers have expressed reservations about the relevance of AFTA or even ASEAN as an economic bloc.<sup>8</sup> They argue that ASEAN countries trade mostly with non-ASEAN countries. The intra-ASEAN trade, although rising in recent years, still remains quite small (Figure 1, Table 3). The total intra-ASEAN trade stood at only 25% in 2006. The low intra-ASEAN trade can be attributed to the high similarity of export structure of most ASEAN countries. This is also reflected in the moderate complementarities among ASEAN countries' trade (Hapsari and Mangunsong (2006).

<sup>8</sup> See, for example, Ravenhill (2007).

Figure 1: Intra- & Extra-ASEAN 8 Trade (Billion US\$)



Source: ASEAN Secretariat, as reported in Tambunan (2006).

ASEAN 8 = Brunei, Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand.

Table 3: Intra-ASEAN Trade Shares, 2006

Country	Exports		Imports		Total Trade	
	Intra-ASEAN	Extra-ASEAN	Intra-ASEAN	Extra-ASEAN	Intra-ASEAN	Extra-ASEAN
	% Share in Total					
Brunei Darussalam	24.8	75.2	50.1	49.9	28.9	71.1
Cambodia	6.7	93.3	33.9	66.1	19.1	80.9
Indonesia	18.3	81.7	31.7	68.3	23.4	76.6
Lao, PDR	72.0	28.0	85.2	14.8	79.8	20.2
Malaysia	26.1	73.9	25.2	74.8	25.7	74.3
Myanmar	61.2	38.8	55.5	44.5	59.0	41.0
The Philippines	17.3	82.7	19.7	80.3	18.6	81.4
Singapore	30.9	69.1	26.1	73.9	28.6	71.4
Thailand	22.2	77.8	18.5	81.5	20.3	79.7
Viet Nam	16.8	83.2	31.0	69.0	24.2	75.8
ASEAN	25.2	74.8	25.0	75.0	25.1	74.9

Source: ASEAN Secretariat

Ravenhill (2007, p. 19) lists a number factors for the ineffectiveness of AFTA. They include the uncertainty about the treatment of products in individual markets, inconsistent rules of origin, and the absence of dispute settlement mechanisms. He also points to the ASEAN’s failure to seriously address “beyond-border” barriers. “Members failed to meet a 2005 deadline for agreement on criteria for identifying non-tariff barriers (NTBs). ... ASEAN simply has not taken effective action to address problems such as coordination of customs procedures, and the harmonization of product standards and technical regulations.”

Only four countries (Singapore, Malaysia, Thailand and Indonesia) dominate the intra-ASEAN trade (Table 4). Singapore alone accounts for around 41% of total intra-ASEAN trade, followed by Malaysia with a share of around 22%. Thus, it seems that less developed members are not benefiting much from AFTA.

Table 4: Country Shares in Intra-ASEAN Trade (%), 2005

Country	Share (%)
Brunei	0.7
Cambodia	0.4
Indonesia	10.9
Laos	0.2
Malaysia	21.6
Myanmar	0.8
Philippines	5.3
Singapore	40.7
Thailand	14.9
Viet Nam	4.6

Source: ASEAN Secretariat

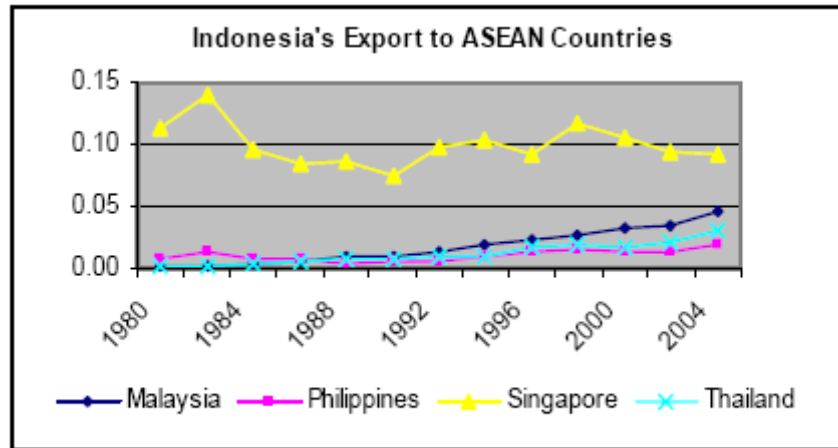
### **AFTA and Indonesia**

At the time of the formation of AFTA, the ASEAN countries accounted for only 10% of Indonesia's total exports. Indonesia increased its exports share to ASEAN to about 18% in 2006. As can be seen from Figure 2, Singapore is Indonesia's major ASEAN export market. However, the share of Indonesia's exports to Singapore has remained stable at around 10% since the early 1990s. On the other hand, the importance of Malaysia as an export destination has increased from around 1% in 1991 to close to 5% by 2004.

ASEAN is more important as a source of Indonesia's imports than as a destination of Indonesia's exports. Around 32% of Indonesia's imports came from the ASEAN countries in 2006. However, ASEAN still accounts for around 24% of Indonesia's total trade; countries outside ASEAN remain major trading partners. Although Indonesia's intra-ASEAN trade has increased in recent years, it only accounts for 11% of total intra-ASEAN trade, well behind more advanced members, Singapore and Malaysia, and 4 percentage points behind Thailand (Table 4).



Figure 2: Indonesia's Exports to Selected ASEAN Countries (%)



Source: UN COMTRADE accessed through WITS

### Gains from AFTA

Given Indonesia's very small share in total intra-ASEAN trade, Indonesia is not expected to gain much from AFTA. One study undertaken by the Ministry of Industry and Trade suggests that Singapore and Malaysia benefit most from AFTA, followed by Thailand and Indonesia. This is in line with their respective intra-ASEAN trade shares.<sup>9</sup> Based on CGE modeling Feridhanusetyawan and Pangestu (2003, p. 72) conclude, "The creation of AFTA... is estimated to contribute little additional welfare benefit ... to Indonesia..." On the other hand, they find significant welfare gains from full implementation of trade liberalization under Uruguay Round and Asia Pacific Economic Cooperation. However, agricultural liberalization in AFTA is likely to benefit Indonesia as it makes Indonesia potentially the major producer of agriculture in ASEAN.

In a more recent study Hartono, et al (2007), also using the CGE modeling, found similar results to Feridhanusetyawan and Pangestu (2003). Their simulation results show that real GDP of Indonesia increases by only 0.13% and the welfare gain by only 0.61% from AFTA trade liberalization. On the other hand, real GDP and overall welfare gains from global trade liberalization are 1.31% and 2.64%, respectively. More interestingly,

<sup>9</sup> Reported in Saleh (2005, p. 83).

unskilled labour income increases by only 0.79% from AFTA liberalization as opposed to a staggering 6.46% from global trade liberalization (Table 5).

Table 5: Indonesia's Welfare Gains from Trade Liberalization (percentage change compared to base-line simulation)

	AFTA Liberalization	Global Liberalization
Real GDP	0.13	1.31
Imports	1.92	8.86
Exports	0.68	3.89
Unskilled Labour Income	0.79	6.46
Capital Income	0.64	4.87
Welfare*	0.61	2.64

Source: Hartono et al (2007, Table 5).

Note: Welfare index includes 17 variables, such as inflation, wages, government revenue, GDP, etc.

The estimated gains from AFTA *plus* and other bilateral trade liberalizations (Indonesia-China, Indonesia-Japan, Indonesia-Korea, Indonesia-India) are also quite small compared to global trade liberalization. Only in the cases of East Asian FTA and APEC FTA, the estimated welfare gains are reasonable.

In terms of sectoral impacts, AFTA creates positive output growth in some capital intensive sectors, such as automobile, other transport means, machine, metal and construction, but negative impact on labour intensive sectors such as leather. A very similar sectoral output effect occurs in the case of AFTA-China BFTA. More damaging impact on labour-intensive sectors (e.g. textiles and leather) happens in the case of ASEAN + 3 and East Asian FTA.

### **The Political Economy Implications**

The expected loss from AFTA and AFTA *plus* BFTAs in the labour intensive sector has significant political economy implications, especially when Indonesia's competitiveness is being eroded due mainly to other labour surplus countries, such as Viet Nam and China. Between 2000 and 2002 nearly one million workers lost jobs in the textile, garments and footwear industries. The fear of losing out from expanded ASEAN *plus*, especially ASEAN-China BFTA is well captured by Saleh (2005, p. 91), in the following words,

... since Indonesia was jolted by the multi-dimensional crisis, Indonesia is not well prepared for entering a free trade area, either in AFTA or ASEAN-China. Nowadays, there are too many Chinese import products in the Indonesian markets legally or illegally with cheaper prices. It is indicated that Chinese products are more competitive than those of Indonesian products. Therefore, I still doubt the success of ASEAN-China FTA, particularly for Indonesia, because I think they do not complement each other.

As can be seen from Figure 4, the share of unskilled labour intensive manufactured exports has been declining since the early 1990s, about the time when AFTA was initiated. This saw the rise in unemployment, the rate rising from 4.4% in 1994 to 4.9% in 1996.<sup>10</sup> The unemployment rate now stands at around 6% (according to the old definition) and at around 10% (according to the new definition).<sup>11</sup>

Figure 3: Declining Share of Indonesia's Labour Intensive Exports



Source: Ministry of Trade, Government of Indonesia

With the increase in unemployment, the poverty rate remains stubbornly high at around 16%. Since the majority of the poor live in the rural areas, it is important to examine the impact of trade liberalization on rural household income. According to Chandra (2005), unemployment in the Indonesian agricultural sector is likely to rise due to BFTA, and small peasants would be worse-off. The simulation results of Hartono et al (2007) show

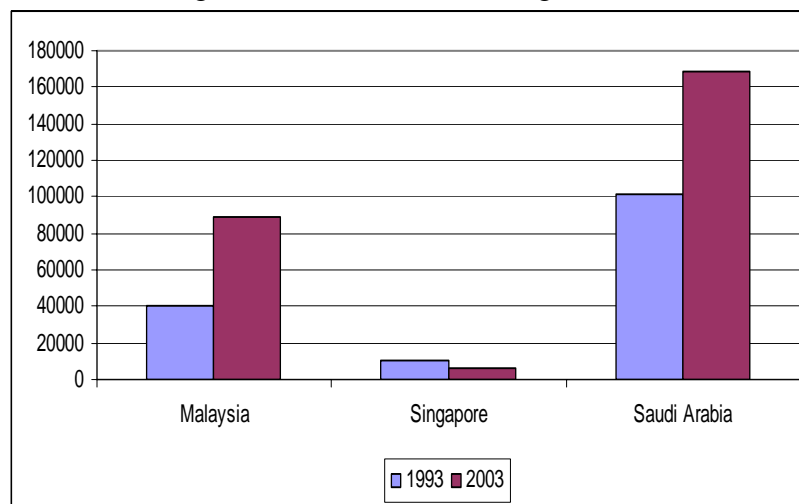
<sup>10</sup> A long time observer of the Indonesian labour market notes that increasing numbers of young, educated people began to queue for their first jobs in the modern sector (Manning 1998). Durations of unemployment were long—nearly half of all young first-job seekers and a third of those previously employed were unemployed for 12 months or more on the early 1990s (Manning 2003).

<sup>11</sup> The new definition includes: (a) actively looking for jobs, (b) NOT actively looking for jobs, (c) have jobs to start later, or (d) preparing a business.

that rural household income increases by only 0.67% from AFTA trade liberalization, compared to nearly 6% increase in the case of global trade liberalization.

As job growth in Indonesia stagnates, its reliance on overseas jobs for unskilled workers, especially in the Middle-east and advanced ASEAN countries (Malaysia and Singapore) has increased since the crisis. Figure 4 is based on official statistics which records only job placements through the government agencies. Government statistics do not account for other types of labour migration, which are estimated to outstrip official migration levels (Ford, 2005). For example, a large number of migrant workers enter West Malaysia without passing through any official border checkpoint remain undocumented. Also there are many who enter Malaysia legally, but overstay their visas.

Figure 4: Indonesian Working Abroad



Source: Ford (2005, Tables, 2.2.2 & 2.2.3)

Majority of Indonesian migrant workers are employed in the informal sector, and have little protection against various abuses and exploitation. According to Kaur (2007), Malaysia recruits about 60,000 Indonesian domestic workers annually and more than 90% of the 240,000 domestic workers in Malaysia are Indonesians. Singapore has been the second major destination for Indonesian migrants in the region and Indonesian labour migration to the island has been dominated by women since the late 1980s. Domestic workers are usually paid lower wages than other migrant workers, and wages are often delayed. Few are allowed to have rest days, and their accommodation is sub-standard

(some have to sleep on the floors of kitchens). Moreover, these workers are often subjected to sexual harassment by men in employers' households, as documented in several studies conducted in Singapore and Malaysia.<sup>12</sup>

Over the last two decades, the government has been constantly criticized by NGOs and human rights agencies for failing to implement measures necessary to ensure the safety and wellbeing of Indonesian citizens employed overseas.<sup>13</sup> According to critics the government is more focused on remittances than on the protection of migrant workers' rights. Thus, migrant workers' protection has become a sensitive bilateral issue for Indonesia. In May 2006, Malaysia and Indonesia signed an MOU setting out a standard contract for Indonesian domestic workers in Malaysia. New domestic worker recruits are to receive RM400 (US\$105) to RM500 (US\$135) a month, with at least one day off a week. However, the Indonesian NGO Komnas Perempuan (National Commission on Violence Against Women), has argued that since the Malaysian signatory was the Home Minister rather than the Manpower Minister, the issue of abuse of Indonesian domestic workers is regarded as a domestic affairs issue rather than as a labour issue in Malaysia.

The Human Rights Watch Report acknowledged the positive steps taken by the Singapore Government to provide security for domestic workers. However, the domestic workers' exclusion from the Employment Act denotes their 'difference' from other workers, increasing their vulnerability and weakening their bargaining power. In July 2006 the government introduced a new standard contract for domestic workers. While employers are required to provide three 'adequate' meals per day to their workers, the new contract 'recommends, but does not require that employers provide workers at least eight hours of continuous rest.' It also does not 'guarantee a weekly day off for workers or cap excessive fees.

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<sup>12</sup> See, Human Rights Watch report entitled *Maid to Order: Ending Abuses Against Migrant Domestic Workers in Singapore* (December 2005), detailing the abuse and lack of rights of foreign domestic workers in Singapore.

<sup>13</sup> See Appendix 2 for issues and challenges in labour migration in Asia.

## **Concluding Remarks**

This short review attempted to summarize the trade policy dilemma of Indonesia. It becomes politically difficult to pursue further regional FTAs when it is rapidly losing competitiveness in labour intensive manufacturing exports mainly to its ASEAN partners, contributing to rising unemployment and poverty. It becomes even harder when close to half the population is vulnerable to poverty, that is, living just around the poverty line. Indonesians do not see their wealthy ASEAN neighbours as helpful in addressing their unemployment problem as both Singapore and Malaysia levy taxes on migrant workers. The exploitation and abuse of Indonesian migrant workers have also contributed to the lack of enthusiasm about Indonesia's ASEAN partners.

The persistence of unemployment and poverty may slow down not only regional FTAs, but also multilateral liberalization. There is already a view among academics, officials, business leaders and civil society organizations that liberalization has gone too far (see Chandra, 2005). They are demanding that protection should be increased in sensitive sectors, such as textiles, chemicals, motor vehicles and steel (Vanzetti, et al, 2005).

Some estimates suggest that even a limited, but well regulated, regime of liberalized labour flows across the world can generate significantly higher benefits than full-scale trade liberalisation.<sup>14</sup> ASEAN contains countries which have abundant cheap labour, while others have shortages. Thus, they can achieve significant economic gains from opening up their labour market. But the opportunities emerging from enhanced regional migration have not received priority vis-a-vis trade and investment flows until very recently. Labour migration always creates fears among the importing countries, especially if the foreign/migrant workers are of different ethnic and cultural background. ASEAN leaders signed ASEAN Framework Agreement on Services (AFAS) which encourages only temporary labour migration. Attitudes to immigration, especially of unskilled workers, remain fairly closed. The large disparities between Southeast Asian states in levels of economic and social development have resulted in migration issues becoming an important focus in the ASEAN countries' international relations with one

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<sup>14</sup> Pritchett (2006).

another (Kaur, 2007). Migration patterns—particularly irregular migration—have led to most governments in the region endeavouring to exert tighter control over cross-border movements through national policies that emphasize security instead of economic concerns.

If ASEAN really wants to be an 'economic community' by the year 2020, like the European Union (EU), it has to seriously address the issue of labour mobility. Barriers to labour movements result in a black market for labour which is prone to abuse and exploitation. This fuels mistrusts among the citizens of the partner countries, and eventually acts as a brake to further trade liberalization. However, there are some signs that leaders are ready to tackle the issue. An ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers has been adopted at the ASEAN Cebu Summit in early 2007. The Declaration puts forward following commonly agreed principles and values:

1. Recognition that migration benefits both sending and receiving countries.
2. Recognition of the sovereign right of states to determine who enters the territory, while being subject to international agreement/ customary law that provides a basic obligation to protect the fundamental right of any person.
3. Recognition that migrant workers also have a duty to abide laws, regulations and traditions of destination countries.
4. Recognition that trafficking is a crime, and that perpetrators should be prosecuted while victims protected.

Currently, a committee has been established at the ASEAN level to implement the declaration and thus to transform it into a more legally-binding instrument. There are also several Mutual Recognition Agreements that provide a framework for mobility of high-skilled workers in specified sectors (nursing, engineering, accountancy). If these agreements are implemented properly, resistance to regional trade liberalization in labour exporting countries, such as Indonesia, is likely to diminish greatly.

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Appendix 1: ASEAN Free Trade Agreements and Regional Trade Agreements (as of October, 2006)

ASEAN Country	WTO / APEC Member	FTA/RTA Concluded	FTA/RTA Under Negotiation	Future FTA/RTA Planned
ASEAN		ASEAN-China FTA (Trade in Goods) ASEAN-Korea FTA (minus Thailand)	ASEAN-China FTA (Services & Investment) ASEAN-India FTA ASEAN-Australia & New Zealand FTA ASEAN – Japan (Comprehensive Economic Partnership) ASEAN – US TIFA	ASEAN – EU
Brunei Darussalam	Yes / Yes	ASEAN Free Trade Agreement (AFTA)	Trade and Investment Framework Agreement (TIFA) with the United States (2002)	
Cambodia	Yes / No	ASEAN Free Trade Agreement (AFTA)		
Indonesia	Yes / Yes	ASEAN Free Trade Agreement (AFTA)	Trade and Investment Framework Agreement (TIFA) with the United States Japan	
Lao PDR	No / No	ASEAN Free Trade Agreement (AFTA)		
Malaysia	Yes / Yes	ASEAN Free Trade Agreement (AFTA) Japan	Australia Pakistan India - Comprehensive Economic Cooperation Agreement (CECA) Korea New Zealand United States EU	Chile
Myanmar	Yes / No	ASEAN Free Trade Agreement (AFTA)		
Philippines	Yes / Yes	ASEAN Free Trade Agreement (AFTA)	Trade and Investment Framework Agreement (TIFA) with the United States Japan (3 rounds)	
Singapore	Yes / Yes	ASEAN Free Trade Agreement (AFTA) Australia Japan European Free Trade Association (Switzerland, Iceland, Liechtenstein and Norway)	Canada (6 rounds) Bahrain Kuwait Mexico (6 rounds) Sri Lanka (1 round) Panama Peru Qatar ( 1 round) Egypt	Iran

		New Zealand USA Jordan India Trans-Pacific SEP (Brunei, New Zealand, Chile, Singapore) Korea	United Arab Emirates Pakistan	
Thailand	Yes / Yes	ASEAN Free Trade Agreement (AFTA) Australia Bahrain China (Preferential Trade Agreement on Agriculture, Oct-03) India Japan (Closer Economic Partnership)	USA Chile Australia New Zealand Papua New Guinea Peru Korea	Czech Republic Croatia Canada Hong Kong Mexico (feasibility stage) South Africa (feasibility stage)
Viet Nam	No / Yes	ASEAN Free Trade Agreement (AFTA)	Sri Lanka	

Source: ASEAN Secretariat

Note:

The above matrix does not include other types of regional cooperation such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) - Groups together Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand.

Appendix 2: Labour migration in Asia: Issues, challenges and responses

Issues	Challenge/s	Possible actions by all actors including trade unions
Irregular migration has increased in the region and is posing serious problems.	How to minimize irregular migration?	<ul style="list-style-type: none"> <li>• Assess the root causes of irregular migration, especially poverty and inequality</li> <li>• Enter into bilateral and multilateral discussions among sending and receiving countries.</li> <li>• Enforce existing legislation in both countries of origin and destination</li> <li>• Impose sanctions and penalties on organizers of irregular migration</li> <li>• Follow international labour standards in dealing with the issue</li> <li>• Receiving countries should adopt regular admission policies for migrants when there is a persistent demand for immigrant labour to meet needs of the economy.</li> </ul>
Protection of migrant workers continues to be a serious problem.	How to ensure basic human rights and protection of all migrant workers?	<ul style="list-style-type: none"> <li>• Ratify international conventions on migrant workers and/or follow the principles enshrined therein in national legislation.</li> <li>• Receiving countries should adhere to commitments made at global summits, and respect universal human rights instruments already ratified.</li> <li>• Trade unions should lobby governments for ratification of international instruments.</li> <li>• Promote tripartite consultative processes</li> <li>• Carry out pattern and practice studies when serious abuses occur.</li> <li>• Punish organizers/ intermediaries rather than victims</li> </ul>
Monitoring of migration flows in the region is inadequate.	What kind of national, regional monitoring systems can be improved upon or initiated; how to achieve greater regional co-operation in this area?	<ul style="list-style-type: none"> <li>• Greater interaction of researchers and policy makers with data gathering systems; cooperation of social partners</li> <li>• Cooperation between sending and receiving countries and among international agencies concerned with migration issues.</li> <li>• Support to new initiatives for generation of missing or unsatisfactory data: sue sample surveys and censuses to obtain migration information</li> <li>• Support to migration research centres</li> </ul>
Migration management policies in Asia lack credibility, and are still undeveloped.	How to evolve more credible, orderly and consistent migration policies?	<ul style="list-style-type: none"> <li>• Learn from good practices and guest worker schemes in other countries</li> <li>• Follow the spirit of international labour standards and recommendations</li> <li>• Respect for basic human rights</li> <li>• Greater regional cooperation and transparent regional consultative processes</li> <li>• Trade unions should clarify their position and lobby governments.</li> </ul>
Regional and bilateral co-operation in this field is lacking	How to promote bilateral and regional cooperation?	<ul style="list-style-type: none"> <li>• Periodic consultations among sending and receiving countries</li> <li>• Use existing fora such as, ASEAN, SAARC and APEC and ASEM to address these issues</li> <li>• Strengthen existing initiatives such as Bangkok Declaration, APC and Manila Processes, Migration Policy and law courses for Asia and the pacific</li> <li>• Promote tripartite consultations involving workers'</li> </ul>

		<p>and employers' organizations</p> <ul style="list-style-type: none"> <li>• Promote networking among unions, employers and NGOs in sending and receiving countries</li> <li>• For countries especially affected, initiate bilateral discussions; <ul style="list-style-type: none"> <li>- Thailand and Myanmar</li> <li>- Malaysia and Indonesia</li> </ul> </li> </ul>
<p>Trafficking of women and children across borders has increased with serious human rights violations.</p>	<p>How to identify trafficking channels and networks and effectively regulate their operations? How to offer relief and rehabilitation to victims of trafficking?</p>	<ul style="list-style-type: none"> <li>• Gathering and sharing of information among countries</li> <li>• Ratification of ILO Convention of Worst Forms of Child Labour, 1999 (no.182) and the UN Convention against Transnational Organized Crime and its relevant Protocols</li> <li>• Stiff measures against traffickers as accepted in the Bangkok Declaration</li> <li>• Build partnerships and alliances among concerned government and non-govt. agencies active in the field</li> <li>• Disseminate research findings including ILO research on the issue.</li> <li>• Implement technical cooperation projects for dealing with trafficking issues: ILO-IPEC Mekong sub-region project</li> </ul>
<p>Trade Unions play only a limited role in assisting and protecting migrant workers.</p>	<p>How can trade unions play a more active role in the protecting and supporting migrant workers, especially vulnerable groups.</p>	<ul style="list-style-type: none"> <li>• Mainstream migrant worker issues in the agenda of national, regional and international trade union activities.</li> <li>• Promote networking between origin- and host-country unions</li> <li>• Drive to recruit migrant workers as members</li> <li>• Dialogue with migrant worker associations and NGOs helping migrants.</li> <li>• Lobby for more support from the employers and governments to union activities in this area</li> <li>• Monitor activities of recruitment agents, other intermediaries and traffickers with a view to preventing and exposing abuses and malpractices</li> <li>• Lobby for changes in national legislation to provide protection to migrant workers.</li> </ul>

Source: Piyasiri Wickramasekera (2002), "Asian Labour Migration: Issues and Challenges in an Era of Globalization", *International Migration Paper*, 59, International Labour Office, Geneva.

Appendix 3: Little Change in Tariff Protection in Sensitive Areas since the Crisis (percentage)

ISIC	Sector	1996		1998		2002	
		Simple average tariff %	Tariff range %	Simple average tariff %	Tariff range %	Simple average tariff %	Tariff range %
3121	Food products	15	5–170	13	5–170	6	5–170
3131	Distilling, rectifying, blending spirits	170	170–170	170	170–170	170	170–170
3132	Wine industries	135	5–170	137	5–170	137	5–170
3133	Malt liquors and malt	17	5–40	17	5–40	17	5–40
3511	Industrial chemicals	6	0–30	5	0–30	4	0–30
3513	Resins, plastics and man-made fibres	13	0–40	12	0–35	8	0–30
371	Iron and steel	8	0–30	8	0–30	7	0–25
3819	Manufacture of fabricated metal products	14	0–30	13	0–25	10	0–20
3843	Manufacture of motor vehicles	48	0–200	52	0–200	21	0–80
3844	Manufacture of motorcycles and bicycles	42	0–150	42	0–150	19	0–60
3849	Manufacture of transport equipment	30	0–30	25	25–25	20	20–20

Source: WITS/TRAINS (2003).