



Indonesia-Europe Asymmetry Trade Agreement Post-Brexit UK

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Abstract

This study aims to estimate how the asymmetry of the agreement between the UK and Indonesia post-Brexit. A literature review on international trade agreements was carried out by tracing agreement data stored in the database of the Indonesian Ministry of Foreign Affairs in the 2010-2019 period. The result is that there is only one trade agreement between Indonesia and the UK, which is related to the Fourth Stage Multi-stakeholder Forestry Program (4th-MFP) project. In the same period, Indonesia also participated in a trade agreement with the European Union called the Voluntary Partnership Agreement - Forest Law Enforcement Governance and Trade (VPA-FLEGT). The VPA-FLEGT is asymmetric in favor of the European Union while the MFP is asymmetric in favor of Indonesia. After analyzing the two agreements, it was found that the tendency is that the UK will continue to encourage asymmetry due to its strict environmental laws and large demand for timber. The asymmetry will encourage Indonesia to continue supplying Britain with timber from legal sources post-Brexit.

Keywords: Brexit, Asymmetry Agreement, Timber Industry, European Union, Trade Agreement

Introduction

An asymmetry trade agreement is a trade agreement in which one party bears heavier obligations than the other party. An asymmetric trade agreement is a situation that reflects the problem of power relations (Pansera & Sarkar, 2016) where one party feels more powerful than the other party so that it can impose more obligations on the other party. Recently, asymmetric trade agreements have increased sharply in various bilateral and multilateral trade agreements (Gomez-Mera & Barrett, 2012). This kind of agreement generally occurs between a developed country and a weaker developing country, which really hopes for the agreement even though only a little profit is obtained (Dimitriu, 2014).

The European Union is a major actor in trade and because of this, often treats asymmetric trade agreements in developing countries. The UK's agreement to leave the European Union (Brexit) in 2020 has practically weakened the European Union's bargaining power in developing countries. On the other hand, Britain is also a developed country, and therefore, is also an actor in asymmetric trade agreements. This change in power map is likely to bring changes to the pattern of asymmetric trade agreements.

Literature Review

Previous research has looked at various aspects of post-Brexit trade policy (Adler-Nissen, Galpin, & Rosamond, 2017; Dhingra, Ottaviano, & Sampson, 2017; Holmes, Rollo, & Winters, 2016), but no previous research has attempted to review agreement asymmetry. Indonesia's trade with European Union countries and the UK post-Brexit. This article attempts to review Indonesia's trade agreements with these two actors: the European Union and the United Kingdom. The purpose of this article is to estimate how the asymmetry of the agreement between the UK and Indonesia post- Brexit. The results of this research will help in understanding how interdependence is between Indonesia and the UK and the European Union and how to address trade issues between the three post-war countries Brexit.

Research Method

The method used in this research is a literature study using secondary data from trade agreements between Indonesia and the European Union and Indonesia and the United Kingdom in the 2010-2019 period as well as supporting secondary data in the context of related trade. The agreement data was obtained from the Indonesian Ministry of Foreign Affairs' International Agreement Database. The agreement document is read in its entirety to then obtain an important abstraction which is the emphasis on the said agreement. The agreements were then compared between the Indonesia-EU agreement and the Indonesia-UK agreement. Specifically, in both groups, the obligations imposed on each party are identified so that an asymmetry can be indicated. Issues that arise are then examined for their background using trade statistics and relevant previous research literature.

Result and Discussion

From the documents obtained, two relevant documents were found, and both concerned timber trade agreements between Indonesia, the European Union and the United Kingdom. In general, both trade agreements are asymmetric. Indonesia's trade agreement with the European Union, VPA-FLEGT (Voluntary Partnership Agreement - Forest Law Enforcement Governance and Trade) (Indonesian Ministry of Foreign Affairs, 2014), is asymmetric with advantages for the European Union. Indonesia is required to establish a system that guarantees that timber products sold to the European Union meet EU standards. VPA-FLEGT itself was ratified by Indonesia through Presidential Regulation No. 21 of 2014 concerning Ratification

of VPA-FLEGT while the system used has long been enforced to increase Indonesia's timber exports (Maryudi, 2016). As a buying party, these standards existed beforehand and the European Union does not have to put in much effort compared to Indonesia to carry out its obligations to guarantee market availability.

Meanwhile, the agreement with the UK, 4th MFP (Phase-4 Multi-stakeholder Forestry Program) (Ministry of Foreign Affairs of the Republic of Indonesia, 2018), seems asymmetrical in the opposite sense, namely leaning more towards Indonesia. The UK is providing substantial financial assistance while Indonesia is left to provide the MFP is HR and make reports on the use of funds was agreed 4th the fourth phase of the MFP agreement upon by the two countries in 2000. In general, the MFP at every stage provides financial assistance to Indonesia to address issues of legal timber production in order to tackle illegal logging and mitigate climate change.

Technically, this asymmetry can be due to different types of agreements. The agreement with the European Union is an agreement related to the sale of Indonesian timber to Europe, while the agreement with the UK is in the form of a letter regulating the flow of British aid funds to Indonesia. According to the difference principle in Rawls' distributive justice theory, inequality in the distribution of social primary goods can be justified if this benefits the most disadvantaged parties (Garcia, Ciko, Gaurav, & Hough, 2015). The asymmetry between EU obligations, UK obligations, and Indonesia obligations in the timber trade reflects a situation of inequality and governance of timber itself is a primary social good. Primary social goods are goods that are in themselves valuable for many people (Trejo-Mathys, 2013). Because of this, the question arises whether the asymmetry in the two agreements really benefits the most disadvantaged party?

In both cases, the most disadvantaged are the people who support their livelihoods from wood either because of its presence or because of its absence. Both agreements have accommodated his. In the VPA-FLEGT with the European Union, Article 12 specifically mentions social security where in paragraph 1 it states:

"In order to minimize the possible negative impact of this agreement, the parties agree to develop a better understanding of the impact on the timber industry as well as the livelihoods of indigenous peoples and local communities who may be affected as regulated in their respective national laws and regulations" (FLEGT VPA, Article 12 paragraph 1).

On the other hand, the 4th MFP agreement from the start, the title of the agreement was intended to manage community-based forests and one of the goals was to eradicate poverty. Time and time again the agreement affirms its pro-poverty, inclusive and sustainable nature. The objectives stated in this timber agreement are: "...to enhance conservation and improve community access to forest resources in Indonesia, thereby achieving equitable, inclusive, sustainable development that reduces poverty and contributes to achieving nationally sustainable development goals (SDGs)" (4th MFP , section Objective)

By looking at the narratives of the two agreements, it is understood that the existing asymmetry has taken the most disadvantaged groups into account. But if you weigh which one is better, the asymmetry in the British timber agreement with Indonesia is not only asymmetry

and benefits Indonesia, but also distributively fair. This can be directly seen from the purpose of the agreement which is intended to increase access and reduce poverty. Compare this to the agreement with the European Union where the phrase used is "minimizing negative impacts" rather than "maximizing positive impacts". This means that the European Union is aware that the existence of this policy will have a negative impact on the most disadvantaged groups, so there must be a special article to minimize it.

However, it was Indonesia itself that initiated the VPA-FLEGT timber trade agreement. In this case, Indonesia is participating in the European Union's wood product standards that have been made previously. The goal is to increase exports of wood products to the European Union. For Indonesia, if their timber exports to the European Union are proven to be illegal, then the timber will be returned and it will be detrimental to exporters. By participating in VPA-FLEGT, the due diligence system that is carried out every time Indonesian wood products enter a port in the European Union, is no longer needed and the risk of rejection has been overcome since the beginning of departure in Indonesia (Indrawati, 2016).

The problem for the most disadvantaged groups in the VPA-FLEGT system was in the early days of implementation. The existence of this system will force domestic timber sellers to improve and trace the origin of their wood. If they cannot prove it, then the wood that has been purchased from the original source cannot be sold and can be returned to the people who cut it down. The people who cut them down, perhaps secretly from the national park forest, eventually lost hope of making a profit from the wood.

However, it is still wrong for communities to harvest wood from illegal sources and without international agreements, there are already existing criminal laws for this act. Indeed, this becomes a problem for the most disadvantaged groups if the government does not provide alternative livelihood mechanisms that are more profitable or at least equal, for communities around national parks or 'forbidden' forests.

Remedial efforts have actually been implemented by the government for quite some time through the development of community forests (Martono & Rahayu, 2017), but their effectiveness appears to be limited to the Java region (Sudrajat, Hardjanto, & Sundawati, 2016). There is quite a lot of documentation showing that the community forest system is still weak, for example destroying the environment (Suryatmojo, 2014), farmers do not want to make it their main job because the land is too small with insufficient income (Erbaugh, Nurrochmat, & Purnomo, 2017), farmers do not understand the market so that has not provided optimal benefits for their lives (Sabastian et al., 2019), financing difficulties (Syamsu, Hardjanto, & Hero, 2019), and many irregularities (Krott et al., 2014). It seems that this is what. This is precisely the concern of the UK so that it will roll out aid funds to support trade in legally harvested timber products through the MFP.

Since the MFP has actually been around since 2000, there is an assumption that Brexit does not play a role in the asymmetry of the EU - Indonesia - UK trade agreement. Moreover, the 4th MFP repeatedly referred to the VPA-FLEGT as one of the legal umbrellas for cooperation agreements with Indonesia.

The relationship between the MFP, VPA-FLEGT and Brexit appears to be more complicated than this mutual support activity. There are several reasons for this. First, the UK seems to see the problem of importing timber as an environmental problem, in contrast to the European Union which sees it more as an economic problem.

The UK's Climate Change Act 2008 is the independent statutory foundation of the European Union's Climate Change Policy. This law is clearer and sharper, in contrast to the European Union's climate change policy which is more tenuous and prone to losing accountability (Heyvaert & Cavoski, 2017).

Second, there is no other EU country apart from the UK that dares to donate funds for the continuation of sustainable legal timber production in Indonesia. From the data provided by the Ministry of Foreign Affairs, Indonesia's forestry cooperation with European countries only exists in two countries: England and Finland. However, Finland only makes cooperation in terms of sharing knowledge, building networks, developing partnerships, entrepreneurship and investment, and developing joint projects in the environmental field (RI Ministry of Foreign Affairs, 2017). The agreement that is built is too abstract and broad. Still need a long time to be able to make it concrete in the field.

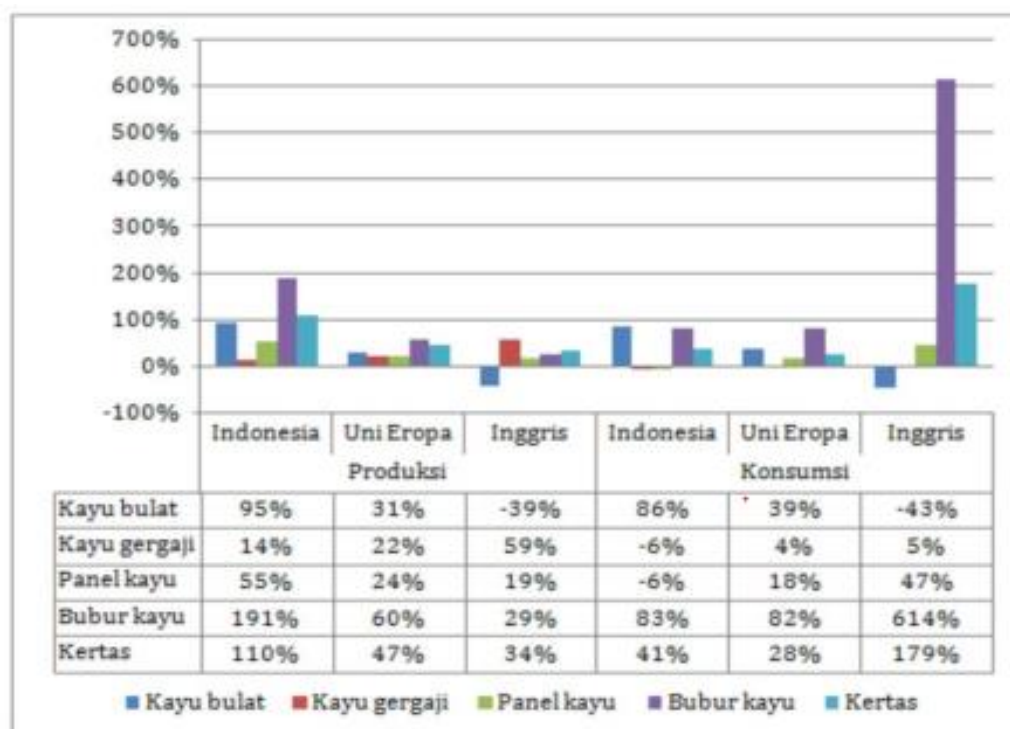
At a farther range, until now Germany through the German-Indonesian Environmental Management Program (Gesellschaft Fuer Technische Zusammenarbeit - GTZ), has been actively assisting Indonesia's forest management, but with a different motive: to fight oil palm plantations whose exports to Europe could threaten farmers of corn and similar crops in the European Union (Sahide, Maryudi, Supratman, & Giessen, 2016). So, while the British were trying to encourage Indonesian exports to their country, Germany, on the other hand, was preventing Indonesian exports to their country.

Third, the VPA-FLEGT scheme is considered problematic because it only addresses the problem of illegal logging on the downstream side, while ignoring the upstream side which is actually closely related to issues such as human rights and workers' rights (Buhmann & Nathan, 2012). Meanwhile, the MFP scheme works in reverse, targeting downstream issues, such as poverty and small communities. The two synergize conceptually, but the problems on the ground are different. The Livelihood Impact Assessment (LIA) activity aimed at evaluating the effects of the MFP on the most disadvantaged communities at the end of MFP-2 failed to be implemented because the government and stakeholders were busy pursuing VPA-FLEGT readiness (Richards & Hobley, 2016). However, MFP-2 reflects Britain's seriousness in ensuring the country's supply of timber, even if VPA-FLEGT eventually disbands or Britain withdraws from VPA-FLEGT as Britain leaves the European Union.

The three reasons above are sufficient to show that post-Brexit Britain will continue to maintain its asymmetrical agreement with Indonesia. The UK will help Indonesia build the downstream side of the legal timber trade so that its trade channels with Indonesia can survive post-Brexit. This would still apply even if the UK still adopted VPA-FLEGT after leaving the European Union.

From an economic standpoint, the UK also has a very large need for wood when compared to the European Union. The results of the research by Buongiorno, Johnston, & Zhu

(2017) found that international trade had an impact on increasing consumption of pulp in the UK by 614% while increasing paper consumption by 179%. This cannot be supplied domestically, which only experienced an increase in production of 83% pulp and 41% paper. At the same time, Indonesia experienced an increase in wood pulp production by 191%, lower than consumption which only increased by 83%. Meanwhile, paper production rose 110% while consumption only 34%. The percentage increase in production may not be large but considering the large land area and production volume, of course it's just that it's huge. The increase in Indonesian pulp production by 191% is equivalent to 4.36 million m³ while the increase in UK pulp consumption by 614% is only equivalent to 1.08 million m³. This shows the importance of the UK to maintain wood supplies from abroad, including Indonesia. Compare this with the European Union which only gets a small effect from the international timber trade on its production and consumption (Graph 1).



Graph 1 Growth in Timber Production and Consumption in 2013 as an Effect of International Trade
(Buongiorno et al., 2017)

The results above show that the UK has a great interest in obtaining Indonesian timber through trade in certified products. The large demand for wood coupled with high environmental awareness demands that the UK build an asymmetry program at the upstream level while utilizing the VPA-FLEGT regime at the downstream level. VPA-FLEGT has encouraged Indonesia to establish a timber legality verification system (Fishman & Obidzinski, 2015). This focus on the upstream sector allows the UK to leave the European Union without having to adopt VPA-FLEGT, moreover there is a tendency for EU member states to give up on implementing VPA-FLEGT (Rutt, Myers, Ramcilovic-Suominen, & Mcdermott, 2018). In fact, the British government itself has stated that it will continue its post-Brexit VPA-FLEGT policy (Zeitlin & Overdevest, 2019) and Indonesia's successful case has been showcased by the British timber trade association to support post-Brexit VPA-FLEGT (Jeffree, 2019).

Conclusion

Based on a review of Indonesia's timber trade agreement with the UK and its comparison with similar agreements with the European Union, it can be concluded that the UK will continue to maintain post-Brexit asymmetry. This asymmetry is important in order to make it easier for Indonesia to sell its wood products to the UK while still keeping the wood products certified. The asymmetry is achieved by supporting the resolution of downstream problems in Indonesia with the supply of funds while the certification mechanism triggered by the asymmetry of timber trade cooperation with the European Union is running.

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