

## **Indonesia Trade Policy Adjustment To Reduce Tariff and Non-Tariff Barriers After the Implementation of IJEPA in 2008**

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### **ABSTRACT**

*The Indonesia-Japan Economic Partnership Agreement (IJEPA) is an economic cooperation agreement that became effective starting in 2008. This cooperation aims to expand the market and increase the volume of trade between the two countries. In achieving its goals, Indonesia made adjustments by forming policies related to IJEPA. This paper will analyze this. The research method used in this paper is a descriptive qualitative method. The data collected in this paper was obtained from official Indonesian government sources, namely the Minister of Finance of The Republic of Indonesia Regulation, and the IJEPA basic agreement-implementing agreement and journals as a secondary data. The author argues that Indonesia will adjust policies to reduce trade barriers in order to maximize the IJEPA cooperation scheme. This research finds that tariff and non-tariff barriers still exist. This is proven by the regulations issued by the Minister of Finance which aim to adjust the basic agreement-implementing agreement between the two countries which contains trade agreements. However, the author analyzes that the remaining two barriers are still effective for protection purposes from the categories of low-quality goods and criminal goods. This is proven through the contents of regulations that are closer to standardization and trade procedures.*

**Keywords:** IJEPA, Tariff Barriers, Non-Tariff Barriers

### **INTRODUCTION**

Indonesia is a developing country in the Asian region, specifically in the Southeast Asian region, with all of Indonesia's potential. Conversely, Japan is one of the developed Asian countries, and bilateral agreements often occur between developing and developed countries. Therefore, Indonesia as a developing country and Japan as a more developed country, are doing bilateral cooperation on the economic sector that is named the Economic Partnership Agreement (EPA), which in short, is an agreement that minimizes barriers to international trade. Before the author further explains the EPA conducted by Indonesia and Japan, the author will show export-import data before the enactment of the EPA between Indonesia and Japan. Quoted from UN Comtrade, the trade data of Indonesia with Japan and Japan with Indonesia through exports and imports are as follows: exports made by Japan to Indonesia have a trade value of \$9,059,831,394 and imports amounting to \$26,516,530,252. On the other hand, exports made by Indonesia to Japan have a trade value of \$23,632,789,875 and imports amount to \$6,526,673,892. From these data, international trade between Japan and Indonesia can still be improved, which is also the purpose of the EPA between Indonesia and Japan (Comtrade, 2024).

In it's development, the two countries finally agreed on EPA cooperation, namely the Indonesia-Japan Economic Partnership Agreement (IJEPA). The agreement was first signed by Indonesian President Susilo Bambang Yudhoyono and Japanese Prime Minister Shinzo Abe in August 2007 and became effective in July 2008 (DJBC, 2022). In Indonesia, this economic partnership agreement has been regulated in the Presidential Regulation of the Republic of Indonesia Number 36 of 2008 (Presiden Republik Indonesia, 2008). This Presidential Regulation contains the ratification between the Republic of Indonesia and Japan on Economic Partnership. After the enactment of the economic partnership between Indonesia and Japan, these two countries will adjust each country's regulations.

In the research by Amanda Saskia Putri (2023), the analysis focuses on the manufacturing industry sector within the framework of the IJEPA. The research problem is how Indonesia's condition was during its cooperation under IJEPA from 2015 to 2019. The researcher used liberal institutionalism theory and the concept of international cooperation. A qualitative approach is used for analysis, relying on secondary data methods, including literature review and documentation. The findings indicate that the manufacturing sector in Indonesia has not been able to develop effectively under the IJEPA due to a lack of awareness on the part of the Indonesian government regarding the speed of differentiation needed to capitalise on the benefits of the IJEPA cooperation. Additionally, the decline in the development of the manufacturing sector is attributed to differences in human resources, economic conditions, and technology between the two countries.

In other research, Yusron Avivi and Muhnizar Siagian (2020) entitled “Indonesia’s Interests in Bilateral Cooperation with Japan: A Case Study of the Indonesia-Japan Economic Partnership Agreement (IJEPA)” focuses on Indonesia's national interests in the IJEPA cooperation and the processes undertaken by Indonesia to achieve these interests. This journal utilises foreign policy theory and the concept of national security within the economic bilateral framework. The results indicate that Indonesia has interests in this agreement, such as maximising economic cooperation with Japan, lowering tariffs to expand market access in Japan, increasing the flow of goods and services, and achieving technology transfer. Moreover, Indonesia is pursuing its interests in renegotiating import tariff agreements, which have been implemented ineffectively. However, Indonesia has not established clear objectives regarding its economic cooperation goals.

According to a paper by Galih Romadhona (2019) entitled “*Faktor Penentu Yang Mempengaruhi Kebijakan Non-Tariff Barriers (NTBs) Terhadap Penurunan Volume Dan Nilai Ekspor Perdagangan Indonesia Ke Jepang Tahun 2008-2015*” This paper discusses the potential of NTBs to increase the amount of trade between Indonesia and Japan. However, there was a decrease in the intensity of Indonesian exports to Japan from 2008 to 2015. The researcher's purpose is to determine the impact of the decline in the volume and value of trade exports caused by the NTBs policy from 2008 to 2015. This paper uses the concept of neoliberalism and the perspective of foreign policy and NTBs.

This paper uses qualitative research with secondary data analysis methods and primary data searches, which are released official data between the Japanese and Indonesian governments and the economic agreement between Japan and the Republic of Indonesia (IJEPA). The three main focuses of this paper are changes in the Terms of Trade (ToT), global market dynamics and the real Gross Domestic Product (GDP) conditions of the importing country (Japan). This journal concludes that the NTB's policy triggered the emergence of safeguards actions from Indonesia, resulting in an increase in consumption and income taxes in Japan to the Voluntary Export Restraint (VER) system. On the other hand, neither country, Indonesia nor Japan has taken definite steps to address this problem.

Surely, after the implementation of IJEPA, there were adjustments made by the Indonesian and Japanese governments. Research related to this is still incomplete. Most existing research discusses Indonesia's national interests and specific export/import commodities in the IJEPA scheme. Therefore, this study will discuss the adjustment process carried out by Indonesia after the implementation of IJEPA. Based on the previous background, the research question in this paper is "How is the policy adjustment process carried out by Indonesia after the implementation of IJEPA in 2008?". Related to this, the main argument by the author in this study is that Indonesia will adjust its policies to reduce trade barriers to maximise the IJEPA cooperation scheme.

The author will use The EPA Concept to answer the research question in this paper. EPA is an international trade agreement that covers many aspects. The scope of an EPA is broader than a Free Trade Agreement (FTA). Furthermore, EPA's also cover government procurement and capacity building. Like FTAs, EPAs usually operate in bilateral, regional and multilateral schemes. After signing the agreement, both countries will adjust to minimise tariff or non-tariff barriers so that trade can run smoothly and the market can grow. Tariff barriers are import duties, referred to as Import Tax (PDRI). Furthermore, non-tariff barriers are tariffs to protect national security. This action limits the entry of imported goods with various policies other than tariff policies. In addition, non-tariff barriers can also be called “invisible barriers” because they make it difficult for goods to enter a country that implements non-tariff policies. Some examples of non-tariff barriers include exchange rate devaluation, export subsidies, embargoes, licenses, import quotas and existing standardisation. So, non-tariff policies have the potential to affect the economy traded from the number of goods or commodities and will affect the price of goods traded. Therefore, the government imposes import quotas to protect the stability of the number of products and consumer needs in the country by providing limits on the quantity of goods entering, namely the import quota itself and the exit of goods called export quotas.

Embargo is a government policy to prohibit a country's trade transactions. Embargo is usually done because of political and economic interests. Furthermore, there are also export subsidies, which are payment assistance in a certain amount by the government for companies or households whose purpose is to increase the number of exports.

Export subsidies can be in the form of export tax reductions, low-interest loans, and international advertising accommodated by the government. The last is export restraints, or Voluntary Export Restraints (VER), namely restrictions on the amount of a commodity exported abroad within a certain period of time. This usually occurs because of an agreement between a country or a political alliance between two or even several countries (Arsana, 2023).

## METHODS

This study is using the descriptive research methods. In Ajat Rujakat's research (2018), quoting Nazir's statement, it is explained that the descriptive research method is a study of the status of a group of people, an object, a set of conditions, a system of thought or a class of events in the present. In Nazir's previous opinion, descriptive research methods describe a condition that exists in human life and then combine it with current conditions. This research seeks to objectively describe and explain a phenomenon within a theoretical framework. The data that has been collected is then processed and analysed by the author before obtaining results, which can then be concluded. The author uses this type of research to explain the adjustment process carried out by the Indonesian government after the implementation of the IJEPA in 2008-2009.

According to Moleong (2007), a qualitative method is an analytical method that produces descriptive data through words or spoken from observations made. So, it is a method whose conclusions are influenced by all variables. Through this method, the author will examine all data obtained and analyse it systematically. The author aims to explain the adjustment process carried out by the Indonesian government after the entry into force of the IJEPA in 2008-2009 using this method to analyse the case in depth.

The Author focuses this research to explain the adjustment process carried out by the Indonesian government, after the implementation of IJEPA in 2008 – 2009. The year 2008 was chosen because IJEPA started to take effect in 2008, so the Indonesian government will make adjustments starting in that year. While in 2009, it became a limitation, so this research data is not too far, considering the number of commodities in this collaboration.

This research uses secondary data, according to Indriantoro dan Supomo (2012) in their book, and the result of data obtained through intermediary media is secondary data. The author also conducted a literature review to collect secondary data through previously available journals. The author also uses primary data from Indonesian government's official sources, namely the Minister of Finance regulation and the basic agreement-implementing agreement IJEPA.

## RESULT AND DISCUSSION

### **A. Adjustments to tariff barriers were made by the Indonesian government after the implementation of IJEPA in 2008**

Following the ratification of the IJEPA under Presidential Regulation Number 36 of 2008, the Indonesian government promptly aligned its policies with the agreements signed with Japan. The agreement between the two countries aims to minimise trade barriers through regulatory measures. The Minister of Finance outlines the trade barriers targeted for reduction in the Ministerial Regulation, specifically concerning tariff barriers. The tariffs refer to import duties, commonly known as Import Duty Tax (PDRI). This means that import duties on commodities entering Indonesia from Japan will be reduced. Several Ministerial Regulations govern this matter, including:

1. *Peraturan Menteri Keuangan Number 94/PMK.011/2008 on Modalities for Reducing Import Tariffs in Relation to the Economic Partnership Agreement between the Republic of Indonesia and Japan.*

Before the implementation of the reduction of import tariffs, the Ministry of Finance first established the procedures. The regulation outlines these procedures, stating that the tariff reductions are scheduled to take effect on the implementation date of July 1, 2008. The reduction is not applied immediately to 0% but is to be carried out in several stages annually, depending on the category of goods, starting from the implementation date. Certain categories of goods will undergo 4, 6, 8, 11, or up to 16 stages before reaching the final rate. There are also categories of goods that will not receive a reduction or preferential tariff but will still be subject to the Most Favoured Nation (MFN) tariff. For goods initially subject to a 5% tariff, the rate will be reduced to 0% through a gradual percentage reduction.

Here are the terms: the decrease in the first year applies on the implementation date, in subsequent years it will always apply on 1 January, and will become 0% on 1 January 2010. The percentage reduction is as follows: will decrease by 15% from the previous rate and will decrease by 12% on 1 January 2016. In other categories of goods with an initial tariff of 5% that becomes 0%, the provisions are not much different. However, it will only become 0% on 1 January 2009. The percentage reduction is as follows: it will decrease by 20% from the previous rate and decrease by 16% on 1 January 2016. There are also commodities that are regulated differently under the User Specific Duty Scheme (USDFS). In other categories of goods with an initial tariff of 10% that will be reduced to 0%, the provisions are not much different. It will still become 0% on 1 January 2010. However, the percentage reduction is different, as follows: 10% as of 1 July 2008, 8% as of 1 January 2009, 6% as of 1 January 2010, 4% as of 1 January 2011, and 0% as of 1 January 2012. In other categories of goods with an initial tariff of 15% that will be reduced to 0%, the provisions are not much different. It will become 0% on 1 January 2011. Other categories of goods with an initial tariff of 8% will become 0% on 1 January 2009. The regulation also mentions reducing import duty rates under the AKFTA (Asean-Korea Free Trade Agreement) scheme (Kementrian Keuangan, 2008).

2. *Peraturan Menteri Keuangan Regulasi* Number 95/PMK.011/2008 About Modalities for Reducing Import Duty Rates in the Framework of the Agreement Between the Republic of Indonesia and Japan Concerning an Economic Partnership

The next Minister of Finance regulation further regulates the regulations for determining the amount of import duty rates. The provisions related to the determination of the amount of import duty tariffs are regulated in Minister of Finance Regulation No. 95, the provisions are as follows. The determination of imported goods from Japan to Indonesia must be accompanied by a certificate of origin (Form IJEPA) signed by the official with the right. The certificate of origin is not required in the case of import duty rates that have been previously stipulated in a Minister of Finance regulation. It is also stipulated that importers must include the facility code or categorisation of goods related to tariff preferences and the IJEPA reference number on the customs declaration. Then, the importer must submit the original sheet of the IJEPA form to the head of the customs office at the port when filing the Import Customs Declaration (PPI).

The appendix listed in The Minister of Finance Regulation No. 95 shows that Indonesia has changed the classification of goods from initially using the HS-2002/AHTN/National 2004 classification of goods to using the HS/AHTN-2007/National classification of goods. In the annex, it is stated that at that time Indonesia was using the HS-2007 classification system so that the determination of import duties by the IJEPA agreement must be transformed from HS-2004 to HS-2007. The annex attached certain tariff posts and descriptions of goods regulated in the HS-2004 classification of goods. However, it is mentioned that the description of goods regulated in HS-2004 cannot be fully transformed into HS-2007.

Therefore, according to the appendix of the Menteri Keuangan Regulasi No. 95, the IJEPA import duty rates based on the HS-2007 classification system are, for horse imports, still subject to import duty rates until December 31, 2010, then live pigs weighing less than 50 kg and weighing more than 50 kg are also still subject to import duty rates until December 31, 2010. In 2008, the import duty rate for both goods was 3.8%, which was reduced by 1.3% in the following year (2009) to 2.5%, and reduced by 1.2% in the following year (2010) to 1.3, and on January 1, 2011, the import duty rate for both goods became 0% (Kementrian Keuangan, 2008)

3. *Peraturan Menteri Keuangan Nomor* 96/PMK.011/2008 regarding the Determination of Import Duty Tariffs with the User Specific Duty Free Scheme (USDFS) in the Framework of the Agreement between the Republic of Indonesia and Japan Concerning an Economic Partnership.

The User Specific Duty Free Scheme (USDFS) scheme was mentioned in the modality of reducing import duty rates. USDFS is a model for determining import duty rates for certain users within the framework of IJEPA. The user is also a legal entity and is eligible to receive USDFS rights with the Industrial Verification Certificate-USDFS (SKVI-USDFS)



issued by the surveyor. Surveyor is a company selected by the Minister of Industry to verify applicants for USDFS facilities. The regulation also explains that the Commodity Classification System used in 2007 changed from the previous 2004. Based on the abovementioned paragraphs, tariff barriers still exist after implementing IJEPA. The existence of tariff barriers that still apply to certain categories of goods is indeed difficult to minimise. The existence of import duties also varies, some use MFN rates and some use special rates (Kementrian Keuangan, 2008).

### **B. Adjustments to non-tariff barriers carried out by the Indonesian government after the implementation of IJEPA in 2008**

In addition to tariff barriers, the Indonesian government is also trying to minimise non-tariff barriers. Unlike tariff barriers, non-tariff barriers are not regulated specifically and directly. Therefore, adjustments do not hinder trade and will always be there. In the IJEPA case 2008, the Indonesian government adjusted non-tariff barriers referring to the IJEPA Basic Agreement(2008) and the Implementing Agreement IJEPA (2008). In the IJEPA Basic Agreement chapter 23, it is stated that there is a prohibition on carrying out any non-tariff measures. This article is added to refer to the WTO Agreement. Referring to the concept, non-tariff barriers consist of:

- Standardization and Licensing

Generally, standardisation and licensing remain formally applicable as outlined in the Basic Agreement of the IJEPA agreed upon by both countries. This includes requirements for labelling and hygiene, product certification and testing procedures, and joint inspections in the country of origin, such as those stipulated under the Food Sanitation Act. Article 42 of the Basic Agreement specifies that all parties must possess a Certificate of Origin related to the licensing provisions established in the agreement. Further clarification regarding standardisation and licensing is provided in Article 43, which states that the Certificate of Origin is necessary to determine the requirements for obtaining the preferential tariffs stipulated in the IJEPA. Additionally, Article 45 specifies that customs authorities in the importing country may deny the preferential tariff treatment outlined in the IJEPA if the importer does not meet certain conditions. One of these conditions is the Certificate of Origin, as previously mentioned.

- Import Quota

Import quotas are generally regulated in the IJEPA Basic Agreement but not specifically, in which both countries are obliged not to apply their import quotas. Commodities can be included in the import quota after obtaining import approval from the Minister of Trade. Indicators of approval and import quotas are influenced by whether or not commodity standardisation and licensing are met. At this point, customs licensing is also one of the stages that must be passed according to the standardisation and licensing points above,

- **Export Subsidy**

The IJEPA Basic Agreement does not contain specific provisions on export subsidies. Both countries must still follow the provisions in the WTO Agreement. This point concerns agriculture. Chapter 24 of the provision explains that both countries must not apply and maintain export subsidies to any agricultural goods following the WTO Agreement subparagraphs 1(a) to (f) of Chapter 9 of the Agreement on Agriculture in Annex 1A.

- **Export Restraint**

The situation of export restrictions and prohibitions written in the IJEPA Basic Agreement can be carried out if each party follows the provisions of the GATT 1994 in chapter 99, including the need to include relevant information to impose such restrictions and prohibitions. The imposition of resource restrictions and limitations must be communicated promptly to the other party, and any enquiries about restrictions from the other party must be answered promptly, to avoid disruption to the ordinary course of business between the other parties.

- **Exchange Rate Devaluation**

In this cooperation, Indonesia and Japan are equally committed to ensuring that their exchange rates are not affected. This is stated in articles 65, 66, 67, and 70 of the IJEPA Basic Agreement. Both countries are very strict in matters that can affect the exchange rate, which shows that they are keen to minimise trade-related barriers.

- **Embargo**

Neither Indonesia nor Japan has a history of embargoes and did not implement embargoes when cooperation began, in this case at least in 2008. Both countries are keen to open up their markets for trade, given that embargoes are a trade barrier that is quite disruptive to market opening efforts under the EPA scheme.

Both countries show their commitment to minimize non-tariff barriers as much as possible. This is shown in the IJEPA Basic Agreement which contains related matters. If non-tariff barriers are 100% removed, trade volume will increase. However, the potential entry of low-quality commodities and criminal goods will increase. Therefore, the existence of non-tariff barriers after the entry into force of the IJEPA is still effective as an effort by the governments of both countries to protect their countries, considering that this cooperation is still running for one year.

## **CONCLUSION**

The conclusion part does not contain repetitions or fragments described in the previous section of the discussion. This section reaffirms the case/issue topics focused on in the writing, the main arguments, and the findings concisely. In this section, the author presents critical reviews of the analytical framework used in the writing and provides



advice on future studies of the related cases/topics. The first line of the second paragraph and the following paragraphs are written indented.

The adjustment process undertaken by the involved countries through the EPA must be oriented toward the objectives of their cooperation. The EPA aims to minimise tariff and non-tariff barriers to expand market access. The research above indicates that efforts to reduce these barriers are essential for realising market expansion following the initial agreement. Existing barriers are normative aspects that cannot be entirely eliminated. The presence of standardisation and licensing reflects the commitment of both countries to maintain the quality of their commodities, thereby influencing import quotas. Approval must be obtained before determining import quotas following standardisation and licensing requirements.

Furthermore, customs clearance is the final stage. Meanwhile, export subsidies are not specifically regulated to avoid potential negative impacts, thus adhering to the rules outlined in the WTO Agreement. The flow of commodities is inherently accompanied by the flow of money across national borders. Consequently, currency devaluation is an unavoidable factor. Nevertheless, both countries remain committed to minimising the adverse effects of currency devaluation. The persistence of trade barriers after the IJEPA agreement is still seen as an effective measure by both governments to protect their interests, especially given that the cooperation has only been in effect for one year. A limitation of this study is the lack of primary data and the restricted time frame of the research. For future researches, it would be beneficial to incorporate more comprehensive primary data and extend the duration of the research. With a longer time frame, the findings would be more complete, and the adjustments made by the Indonesian government would be more comprehensive.

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