

**International Free Trade: Can Indonesia Survive It?**  
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**Abstract**

*There have been arguments that, for Indonesian economic development, competitive advantage will soon replace comparative advantage. It is also argued that one country should not be satisfied with its comparative advantage. As a country who has enjoyed comparative advantage for about three decades, Indonesia must not be a country that exports labour-intensive commodities forever. It must shift to being a country that exports capital-intensive and high skill intensive commodities. It must also find which commodities are going to be competitive in the world market. A skepticism stems from the fact that the developing countries usually specialize in agricultural products, while the developed countries specialize in manufacturing products. It is also argued that with the current open international free trade, the products of the developing countries will not be able to compete with those from the developed countries.*

**Key phrases: free-trade, labor-force, traditional industries**

Introduction: Indonesia and Free trade

The objective of founding a [Free Trade Areas \(FTAs\)](#) and Free Trade Zones (FTZs) is to reduce the barriers in order to ease exchanges, especially the export-import activities between or among the member nations. From this free trade, it is expected that better businesses among the member nations will grow as a result of specialization, division of labor, and most importantly via [comparative advantage](#). As argued in the theory of comparative advantage, an unrestricted marketplace of production tend to specialize in that activity where it has comparative (rather than absolute) advantage (Harris, 2007: 3-4). It is also argued that the international free trade outcome will result in an increase of income and, ultimately, wealth and well-being for all members in the free trade area.

International free trade—so far defined—is the exchanges of goods and services across international boundaries or territories. It is limitless and in many countries free trade often represents a significant share of [GDP](#) (see: Wikipedia, 2008: 1). In one way or the other, it has a great impacts in the history, its economic, social, and political importance of a nation. That is, the member nations will develop in terms of the industrialization, advanced [transportation](#), [globalization](#), [multinational corporations](#), and even political power. The increase of international free trade, therefore, can seen as the basic to [globalization](#). International free trade is also a branch of [economics](#), which, together with [international finance](#), forms the larger branch of [international economics](#).

One commonly argued key objective of trade was to promote a “favorable” [balance](#) of trade, referring to a time when the value of domestic goods exported exceeds the value of foreign goods imported. This favorable balance, in turn, will create a balance of trade [surplus](#). There have been some distinct theories or models proposed to predict the patterns of trade and to analyze the effects of trade policies implemented in Indonesia as an (seems to have no choice, but *must be* one) area of the FTA or FTZ.

Instead of a balance of trade surplus, however, some “losses” have been suffered by some member nations in the current regional and international free trade. To some nations, international free trade is something beyond their capacities and capabilities—but unfortunately unavoidable. This is the reality that Indonesian government should be aware of in the very near future if they wish to (at least) maintain the current condition of export-import position in international trade. Facing a big horror of becoming a loser, especially with many “government protected” industries with a comparative advantages, Indonesia can be seen as having many declining export industries. Often—again, inevitably in Indonesia—the government pays part of the initial cost of factory setup, loosens environmental protections and rules regarding negligence and the treatment of workers, and even promises to free the investors from the payment of taxes for some period of time.

In relation to the founding and the implementation of special Free Trade Areas and Free Trade Zones as part of the international free trade, Indonesia is often pushed into a relatively uneasy position. FTAs and FTZs, therefore, are often criticized for encouraging business operations set up under the influence of two factors; strong multinational corporation and (often) the supports of governments whose countries are still struggling to develop. Furthermore, this kind of government often offers the foreign corporations more economic liberty in the developing nations. Many developing countries are increasingly allowing expats entrepreneurs to work inside FTAs or FTZs in the hope that they can transfer their skills and technologies as well as to access export-based industries. However, since the multinational corporation is capable of choosing among numerous “underdeveloped or depressed” nations in setting up overseas factories, and most of these countries have “freer” regulations, bidding wars often erupt between these underdeveloped or depressed nations.

This paper is intended to discuss Indonesia’s position in the international free trade in two aspects. They are (1) aspects of the export-

import industries, which many (if not most) of them are dominated by foreign invested companies or multinational corporations, and (2) aspects of labor force where in one way the number keeps accumulating steadily and—in the other way—they are low-skilled. Discussed on the bases of some theoretical statements (Ricardian model, Heckscher-Ohlin model, and some other theoretical views) on international trade theories, the discussion will be focused on Indonesia's struggle in facing the inevitable international free trade. That is, this paper will discuss how Indonesian "traditional" industries are competing in the international free trade and to see how Indonesia's staggering labor force are playing the part in such international liberation.

#### Discussion Traditional Industries: A Difficult Transformation

In fighting with the inevitable international free trade, Indonesia can naturally be seen as implementing the combination of two models of international trade. First, Indonesia "naturally" implements the Heckscher-Ohlin model, which seems to provide an elegant solution by incorporating the "classical trade power" mechanism into international trade theory. Theoretically, it is argued that the pattern of international trade is determined by differences in [factor endowments](#) (see: Suranovic, 2006: 3). In the eyes of Heckscher-Ohlin (H-O) model, one can predict that Indonesia is a country with the capacity of [exporting](#) the commodities that make intensive use of locally abundant factors and will import goods that are locally limited.

Secondly, Indonesia can be seen as (also "naturally") implementing Ricardian model where the concept and the national policy of [international trade](#) is focused on [comparative advantage](#) of its specialization (see: Harris, 2007: 3). In Indonesia, comparative advantage has been so far seen as (perhaps) the most suitable concept up to the present time. By implementing this model, therefore, Indonesia can be identified in their specialization of certain products. These are the two models that have so far been "naturally" combined in facing the international free trade (note that the term naturally is put in quotation mark).

In such natural combination, it has been so far proven that within the last three decades Indonesian products—bearing both the endowments and specialization—are very much depending on the availability of both renewable and non-renewable natural resources. In terms of renewable natural resources, for example, Indonesia can be identified as one of the

biggest exporters of wooden products, rattan products, and (a relatively small volume) of agricultural products. In terms of its non-renewable natural resources, Indonesia can be seen as the exporters of natural gas and oil products, mining products, natural rocks, and some other non-renewable natural resources. In other words, one can predict—based on the framework of the combination of the two models—that Indonesia within the last three decades has been specializing (maybe depending on) certain products instead of producing a broad array of “popular” goods (like what China have so far been doing).

Based on the combination of two different theories—comparative and competitive advantages—Indonesian expectations within three decades can be described with the following figure 1:

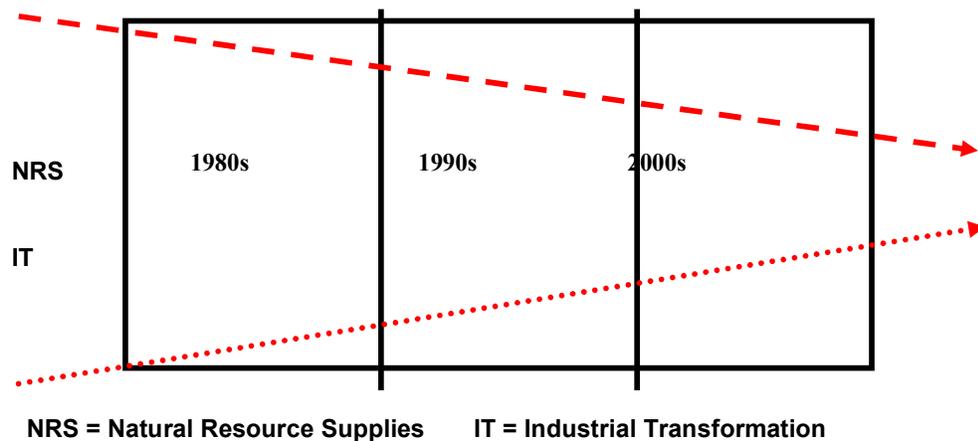


Figure 1:  
The expected Indonesian industries  
made on the bases of the combination of the two theories.

In the above figure 1, it can be seen that—as found in many developing countries—the availability of both renewable and non-renewable resources (represented by broken line) has been declining. In the mean time, the industrial transformation (represented by the dotted line) has been raising. The NRS-line should at least possess similar rate of decline compared to that of IT-line raise. After another decade or a little longer, these two lines will cross each other at a point. It is of course economically advantageous if the IT line raises higher, which means the industrial transfer can be made faster.

In Indonesia, however, despite the fact that the country possesses both endowments and specialization, there are two big questions that seem to be (if not difficult) not easy to answer. The two big questions that Indonesia should answer in the very near future—as it has been occasionally asked—are (1) What will the government do when those natural resource-dependant industries can no longer operate due to the shortages of the raw materials?, and (2) How will Indonesia transform those “traditional” industries into fully modern or at least semi-modern industries?

Statistically, it is noted that Indonesia should have been ready by now to reproduce the renewable natural resources in order to maintain the industries of wooden products, rattan products, and some of its agricultural products. This should have been so even when it may take some ten years or more for trees or rattan canes to grow to usable sizes. However, since replantation in many areas are not successful due heartless attention paid on it, such renewable natural resources are getting scarcer. In some areas the failures even stimulate environmental destruction and, in some cases, logging and cane-cutting have even caused some protests from people living nearby.

Furthermore, agricultural products have been proven to be “the losers” in competitions (even only) with some other South East Asian countries. In reality, therefore, it is often found that, gradually, some factories are reducing or even discontinuing their contracts with the factory workers. This unhappy thing has been unavoidable and still is happening, slowly though, but surely within the last one decade.

It is more frightening to know that there are far many more factory workers who work in this kind of industries compared to semi-modern industries such as plastic products, kitchenwares, spareparts, etc. To avoid it (to slow it down, to be more precise), Indonesian government has so far been generous to multinational corporations. Often, the government pays part of the initial cost of factory setup, loosens its previously tight environmental protections and rules in the hope that it can maintain the ongoing condition and the working atmosphere for the factory workers, and even promises to free the investors from the payment of taxes for some period of time. Multinational corporations, however, often hold in their hand “more fixed calculation” and possess the capability of selecting “more promising” nations in setting up overseas factories. More than that, countries like Vietnam and even Cambodia are more promising compared to Indonesia where political situation is often found unstable.

Another miserable thing is that when the taxation-free years are over, the multinational corporations which set up the factory without fully assuming its costs—holding the “more fixed calculation”—is often able to set up their operations elsewhere in developing countries for less expense than the taxes to be paid (see: Ananta, 2007: 5). This, of course, leaves the host government powerless when they have to go to the bargaining table. Unfortunately, this powerless condition with more demands to continue operations in Indonesia is well known by the multinational corporations. For the multinational corporations, it is a great advantage to find that the Indonesian government “badly” need to keep the factories “existence” in order to protect some tens thousands or even some hundreds thousands of labors.

The worst of all is that even within the last three decades (a very long period for the idea of international trade), Indonesian traditional industries, like wooden and rattan products, still depend on other multinational corporations to operate. This automatically causes Indonesian “specific factors” weaken and difficult to transform into semi-modern industries, let alone into modern industries. As a further consequences of the weakening specific factors in Indonesia, labor mobility between industries is possible while capital is immobile between industries in the short-run (*for detailed description about Specific factors, see: Free Trade by Wikipedia, 2008: 4-5*).

Theoretically, with such specific factors, Indonesia should have managed to transform their industries into at least semi-modern production because it owns the physical capitals which are not easily transferable between industries. That is to say that when there is an increase in the price of a good, as the the owner of the factors of production specific to that good, Indonesia will profit in real terms (see: Haswidi, 2007: 1). On the

contrary, the multinational corporation—although they have both the money and skilled labor—should have been depending on Indonesia’s influential power. Unfortunately, however, this has been so far NOT happening. In fact, within the last three decades, Indonesia only WORK for those multinational corporations, and not TRANSFER the technology therefrom. In this regards, it is difficult to find the party to blame, the government or the traditional Indonesia labor force.

Based on the real condition, therefore, the industrial development can be described as the following figure 2:

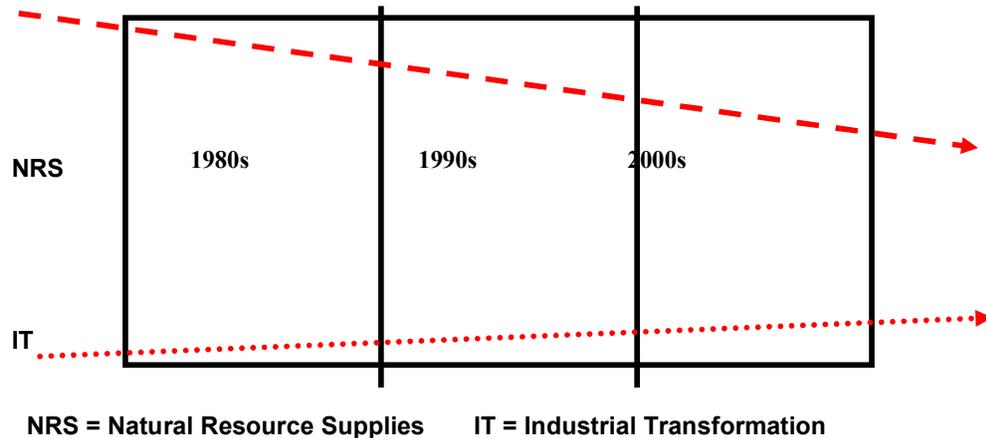


Figure 2:  
The real condition of Indonesian industries  
during the last three decades.

In the above figure 2, it can be seen that the availability of both renewable and non-renewable resources in Indonesia during the last three decades (represented by broken line) has been declining. During the same period, the industrial transformation (represented by the dotted line) has been so slow. These two different lines, therefore, may need another three decades or even longer before the two lines cross each other.

#### The “Staggering” Indonesian Labor Force

Free flow of international trade and capital, at least in Ananta’s view (2007: 7), will consequently bring the liberalization of the flow of labour force. Along with the international free trade and free flow of capital and investments, the free flow of skilled and unskilled labor has been a significant part of the globalization. While in Harris’s view about comparative advantage environmental effects must also be considered into the analysis of the effects of trade on the exporting country (Harris, 2007:4), in many ways both skilled and unskilled labor flows may also cause the so-called social impact on the countries of destination.

Most of Indonesian labor force working abroad are low-skilled laborers. That is to say that they are mostly house-keepers, factory workers, building construction coolies, and the like. It can easily be recognized that they go to work abroad with only limited skills and limited education background. There are some Indonesian labor force who are paid for their skills and their education backgrounds. The percentage of this type of labor force, however, is relatively much smaller compared to the expats from other countries who work in Indonesia in various job sites. This

is an obvious indication that in international competition in terms of skilled labor-force Indonesia has been left far behind many other countries.

Some newest reports have even showed that the needs for some twenty or thirty thousands of trained nurses and babysitters from Indonesia every year cannot be fulfilled due to the failure to meet some of the requirements during the selection process. Foreseeing importance of communication in the job sites, for example, some countries of destination like Japan, Taiwan, Korea, and Hongkong require some English or local survival language skill for all workers. Since the requirements can be met by labor-force from other South East Asian countries like Thailand, and Philippines, and Vietnam, the chances are taken over by those countries.

Even when Indonesian laborers can be considered under some circumstances, especially because they are willing to be paid lower, they are potential to be the sources of the social issues in the countries where they work (see for example: Cray, 2007: 2). More seriously, for Indonesian low-skilled laborers working abroad, the process of adapting to a new social environment have been proven to be the sources of social issues in the country of destination. Often, the government is pushed into an embarrassing position when they have to fight for the citizens who have to go to the trial for some cases as part of their responsibility for their citizens.

It is true that Indonesia's "export" labor-force can be a very potential for fostering the economic growth. This should be a promising future along with the ever-increasing number of labor-force since the last three decades. And if—and this is a big if—Indonesia manages to prepare this ever-increasing number of labor-force to compete with other South East Asian countries in terms of meeting the above mentioned survival requirements. For Indonesian unskilled laborers who are mostly women and mostly low educated, working abroad has so far been—as Cray (2007: 1) calls—the jobs of last resort for people whose other options are few.

The embarrassing thing is that, as it has been gradually known by the employers in the countries of destination, the bargaining power of Indonesian unskilled labor-force has been very low. That is to say that because the employers possess some other better choices, they usually set up a very low level of salary for Indonesian labor-force. To make the things even worse, the government law efforts during some trials for some cases of Indonesian women working abroad seldom give them positive assistance. This becomes another factor that makes the countries of destination put Indonesian women labor-force the lowest in the choice list.

On the bases of the above elaboration about Indonesian competitiveness in terms of the liberalization of the free flow of labour force, it is high time for Indonesian government and other institutions to carefully prepare the ever-increasing labor-force. The export and import of any product or commodity, including labor-force, is not on the basis of only whether the countries need the product, but whether the importing countries really want to "buy" the product. In other words, with the analogy of the free trade and free capital, from the Indonesian perspective, the effects of the free flow of both skilled and unskilled labour can be disadvantageous. Indeed, the lack of readiness of the labor-force will make Indonesia and other countries involved in free trade and free capital flow unable to optimize the gain from free trade, free capital flow, and free labor-force flow.

For the labor-force, it is very necessary to know that the market will decide the wage differential. The governments of the countries of destination do not have to differentiate between labor-force from Philippines and Indonesia if they have the same qualification and they can meet the same requirements. In other words, it is the market that will decide by themselves. With the mutual understanding between the

government and the labor-force, the preparation before resettlement—such as entry level job-training, language training, and other trainings can be made easier. In short, Indonesian labor-force should be equipped with the necessary information on working abroad. If not, there is a big question for Indonesia to answer. The question is not whether Indonesia will be ready for international free trade, free capital flow, and free labor-force flow. To be more clear, the competition has already been going on. The question is Will Indonesia be ready for the more pressing competition?

#### Concluding Remarks

International free trade, free capital and labor-force flows still raise a number big questions for Indonesia to answer. With on-going traditional industries which still depend much on the natural resources, Indonesia basically still have time—limited, though—to reproduce the renewable natural resources in order to maintain some of its industries. In the mean time, there is also a demand to transform the current traditional industries which are dependant upon natural resources into semi-modern and modern industries such as plastic products, kitchenwares, spareparts, etc. to maintain the on-going condition and the atmosphere of the factory workers' employment.

In terms of the free flow of international labor-force, the ever-increasing number of Indonesian labor-force can be seen as one of the potential sources of economic growth. However, it is depending on whether both the government and the labor-force can develop a mutual understanding to ease the preparation for the labor-force prior to the placements or the resettlement in the countries of destinations. As Indonesia is stepping ahead with the development of both the (semi) modern industries and human resources, Indonesian industries and labor-force will eventually come to a stage where Indonesia will have an equal opportunities with other countries in the three areas; international free trade, free capital flows, and labor-force flows. This might sound very difficult, especially during this globalization difficult time. There is, however, still time for Indonesia.

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