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Navigating Challenges and Opportunities in EU-Indonesia Trade Relations:

Towards a Future Free Trade Agreement

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Dedication Page

For my wife, my confidante, my muse, my love — Naila Yaumima Rahma

For *Ummi* and *Abi,* who gave me with dreams and the courage to pursue them

For my little sisters, Sarah and Aqilah, whose unwavering support lifts me up

To younger me, who dared to dream and became the person I am today

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List of Acronyms

FTA	Free Trade Agreement
EU	European United
GDP	Gross Domestic Product
VAR	Vector Autoregression
HS	Harmonised System
IRF	Impulse Response Function
TSD	Trade and Sustainable Development
GATT	General Agreement on Tariffs and Trade
WTO	World Trade Organization
ASEAN	Association of Southeast Asian Nation
CEPA	Comprehensive Economic Partnership Agreement
EFTA	European Free Trade Association
EUDR	European Union Deforestation Regulation
ROO	Rule of Origin
GSP	Generalised System Preferences
WCO	World Customs Organization
US	United States
ECLA	United Nations Economic Commission for Latin America
MNC	Multinational Corporation
NTB	Non-Tariff Barrier
G7	Group of seven
FDI	Foreign Direct Investment
AUSFTA	Australia-US Free Trade Agreement
EVTA	EU-Vietnam Free Trade Agreement
JPEPA	Japan – Philippine Economic Partnership Agreement
ACFTA	ASEAN-China Free Trade Agreement
AKTIS	ASEAN-KOREA Trade in Service Agreement
UNCOMTRADE	United Nations Commodity Trade Statistics
LR	Likelihood Ratio Test
SBIC	Schwarz-Baynessian Information Criterion
HQIC	Hannan-Quinn Information Criterion
TOR	Term of Reference
CSIS	Center for Strategic and International Studies
AIC	Akaike Information Criterion
PCA	Partnership and Cooperation Agreement
SIA	Sustainable Impact Assessment
USD	US Dollar
EUR	Euro
IDR	Indonesia's Rupiah
TBT	Technical Barriers to Trade
SOE	State-owned Enterprises
SME	Small-Medium Enterprises
CBAM	Carbon Border Adjustment Mechanism
EJRC	EU Joint Research Center

ISPO	Indonesian Sustainability Palm Oil
RSPO	Roundtable on Sustainable Palm Oil
HCV	High Conservation Value
TKDN	*Tingkat Komponen Dalam Negeri*
SNI	*Standar Nasional Indonesia*
MUI	Indonesian Ulama Council
OIE	Office International des Epizooties
IPCC	Intergovernmental Panel on Climate Change
CODEX	Codex Alimentarius
FAO	Food and Agricultural Organisation
IUP	*Izin Usaha Pertambangan*
IUPK	*Izin Usaha Pertambangan Khusus*
JV	Joint-Venture
DNI	*Daftar Negatif Investasi*
BPJH	Halal Product Assurance Organising Body
ILO	International Labour Organisation

Abstract

The study of Free Trade Agreement (FTA) continues to gain prominence as a means of understanding how international trade influences social welfare. Amid a rapidly shifting geopolitical landscape, Indonesia and the Europe Union (EU) have engaged in intensive discussion to establish a free tariff trade. Given Indonesia's status as a developing country, it faces distinct challenges and opportunities in negotiating with the EU, one of the world's foremost economic blocs. This research examines the socioeconomic impact of Indonesia' export to the EU, with a particular focus on identifying pathways for Indonesia to maximise its gain from this cross-continental trade agreement.

This study specifically investigates the socioeconomic impacts of Indonesia's key export commodities from major provinces to the EU, examining indicators such as poverty, unemployment, the Gini ratio, and Gross Domestic Product (GDP) in consumption to identify sectors for prioritisation in FTA negotiations. This study uses a mixed-method approach that combines quantitative vector autoregression (VAR) analysis from 2002 to 2022 for selected Harmonised System (HS) codes and Impulse Response Function (IRF) to assess export shock impacts on socioeconomic condition. For qualitative method, it includes policy analysis, semi-structured interviews, and document review.

Findings indicate that trade benefits remain concentrated in Java, highlighting disparities with limited advantages from EU-Indonesia trade relations. Furthermore, this study addresses key FTA negotiation issues, noting the EU's focus on liberalisation versus Indonesia's emphasis on protecting domestic industries. These differences emerge in areas such as Trade in Goods, Services, and Sustainable Development (TSD), posing challenges for Indonesian SMEs in meeting international standards.

Relevance to Development Study

The relevance of this study lies in its cross-econometrics analysis and investigation into the behind-the-scenes of EU-Indonesia FTA negotiation. Unlike most of studies on cross-continental trade agreement which typically employ a single method, this study offers a distinctive approach by combining both quantitative and qualitative methods. Within the field of Governance and Development Policy, this study aims to provide a counterpoint to the predominantly Western-driven development agenda by economically examining socioeconomic condition of a developing country—in this case, Indonesia—in its trade relation with the EU. Through off-the-record interviews with high-level officials and other key stakeholders involved in the negotiations, this study politically sheds the light the main principle of development of the EU and Indonesia when it comes to trade liberalisation. Ultimately, this study offers a novel contribution, advocating for a just development agenda in international trade. It serves a resource for policymakers, cross-continental business actors, civil society, and academia by grounding its finding in on-the-ground insights.

Keyword: Free Trade Agreement, EU – Indonesia Trade Relations, Trade Liberalisation, Governance

Chapter 1
Introduction

1.1 Background

In the aftermath of World War II, the orthodox economic paradigm has shaped the countries around the globe to form partnerships aimed at achieving a world of free trade (Whalley, 1985). Global trade expanded as tariff and non-tariff barriers between nations were reduced (Miner, 2007). These circumstances subsequently lead to more 'opened-doors' trade policy, renowned as trade liberalisation, for either bilateral or multilateral cooperation to fulfil each other's demands at home. In concrete terms, the trade liberalisation was formalised through the General Agreement on Tariffs and Trade (GATT) in 1948. This was further expanded in 1995 with a broader membership, leading to the establishment of World Trade Organization (WTO) which aims to abolish protectionism of which trade and non-trade barriers (NTBs) to restore the economic prosperity (WTO, 1999 p.2-3) In practice, the trade liberalisation is commonly pursued under the scheme of Free-Trade Agreements (FTAs), in either bilateral or multilateral frameworks.

Indonesia has several of FTAs in force in bilateral scheme—apart from its multilateral involvement with Association of Southeast Asian Nation (ASEAN)—under Comprehensive Economic Partnership Agreement (CEPA) framework, including with Australia, South Korea, Chile, Mozambique, and European Free Trade Association (EFTA) countries which comprises Iceland, Liechtenstein, Norway, and Switzerland. In addition, several FTA negotiations remain ongoing with outstanding issues being comprehensively discussed, particularly the case of the European Union (EU). The EU-Indonesia FTA aims to facilitate and establish new market, trade, and investment access including promoting sustainable development between the two parties. Negotiations were initiated by the EU in 2016, with the last roundtable held on 19 July 2024.

The negotiations have seen ups and downs in recent years. Notwithstanding the two are in favour to open its border for free trade, some of their policies are contradictory. This is also driven by external contested policies that intertwine with the negotiation. From Indonesia's perspective, the Deforestation Regulation (EUDR) and Carbon Border Adjustment Mechanism (CBAM) are seen disadvantaging developing countries as these policies could hinder exports of palm oil, cocoa, coffee, timber, and rubber products to the EU (Fauri and Febiandita, 2024). On the other hand, Indonesia implemented a nickel export ban in 2020 as parts of its ambitious mineral downstreaming policy[1], a move that raised concerns within the EU and led the bloc file a lawsuit with the WTO.

Given the prolonged negotiation process—spanning eight years—and the ongoing trade disputes, questions arise as to whether both sides will achieve their desired outcome through the FTA. Indonesia may reconsider its trade relations with the EU, assessing whether it has positively impacted its domestic welfare. The same considerations apply to the EU.

[1] Started in 2020, Indonesia has ban raw nickel export to foster the critical material downstreaming effort. This includes processing and refining domestically to apply value-added to each export-oriented material while attracts foreign investment to take part for technology sharing and innovation. This is because, Indonesia aims to be an electronic vehicle (EV) hub in the region since the country holds the biggest nickel reserve in the world. The nickel downstreaming policy is aggressively against by the EU since the bloc's carmakers have interest to secure the low-price nickel resource following its ambitious Green Plan in 2050.

1.2 Problem Statement

The EU initially kept its eye at broader FTA partnership with ASEAN under a multilateral framework. The first engagement of EU-ASEAN FTA came to the table in 2007 with the preceding Vision Group of EU-ASEAN Partnership formed a year beforehand to stimulate the negotiation. However, due to the political instability, humanitarian crisis, and military conflict taking place in Myanmar in 2009, the union withdrew from the talk and shifted to the bilateral setting with individual ASEAN member states (Devadason and Mubarik, 2020). In response to this shift, the bloc began talks with Singapore and Malaysia in 2010, with Vietnam in 2012, with Thailand in 2013, with the Philippines in 2015, and with Indonesia in 2016 (ibid*,* 2020). The status of those initiatives unfortunately faces stumbling block.

The state of play of FTA, as of 2024, shows only that with Singapore and Vietnam which have entered into force. Meanwhile the talk with Indonesia, Thailand, and the Philippines are still ongoing, Malaysia[2] decided to hold it in 2012 after the country ratified the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and failing to reach a common understanding on terms of agreement (Ulrich and Falkenberg, 2023).

The journey of Indonesia and EU reflects a complex relationship marked by periods of advancement and setbacks. Reports from media have noted push-and-pull dynamic between the two. The bloc filled a complaint against Indonesia at WTO over the raw nickel export ban in 2020 while Indonesia protested the deforestation regulation (EUDR), arguing that it discriminates for smallholders (Murfi, 2024 and Suroyo *et al,* 2023). Furthermore, the trade clashes continue, with Indonesia's biodiesel export to the EU allegedly circumvent duties by routing through China and Britain (Reuters, 2023). These phenomena have been a central issue as the researcher sees Indonesia is the only ASEAN members negotiating an FTA with the EU that has trade barrier disputes filed with the WTO. Despite these challenges, neither side has withdrawn from the table marking mutual dependence between EU and Indonesia. This distinguishes the EU-Indonesia case within the broader context of EU-ASEAN trade relations.

Specifically regarding Indonesia, Arini (2022, p.2) states that the country has a low level of FTA utilisation despite having 20 FTAs in place, both bilateral and ASEAN scheme. In the context with the EU, although the FTA negotiation is still underway, Damuri *et al* (2021) argue that that low utilisation is driven by the complexity of Rule of Origin (ROO)[3], Sanitary and Phytosanitary (SPS)[4], and special product licenses that Indonesia has to navigate. On the other hand, on trading with the EU, Indonesia benefits from the Generalised System Preferences (GSP) under which the country enjoys 30% lower duty when exporting to the EU. Notably, the 27-countries bloc grants Indonesian exporters preferential access to its market by reducing and/or eliminating tariffs on certain goods through strict ROO requirements still apply. This overlapping policy framework creates confusion for exporters and complicates their ability to maximise trade benefits. On the other hand, in the EU's perspective, Sicurelli (2020) revealed that the bloc is struggling with regulatory barriers, environmental and sustainability issues, and government procurement when trading with Indonesia. Through FTA

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[2] The talk with Malaysia only lasted for 2 years with 8 rounds of negotiations.

[3] Rule of Origins (ROO) refers to the rule to determine where the product was made. In the context of FTA, this rule serves to qualify a country to benefit from lower tariffs on goods to meet specific criteria such as a compulsory for a product to mostly or entirely made in the country claiming the benefit.

[4] Sanitary and Phytosanitary (SPS) is a measure to ensure the food and agricultural products from the exporting countries are safe for consumption. This measure also serves to check whether or not the products harm the agricultural and environment of importing country.

negotiation, the EU seeks to leverage its 'normative power' to promote norms around compliance with sustainability, human rights, and labour protections in Indonesia.

It is critical to recognise that the negotiations may not occur on an equal playing field. As a leading economy bloc, the EU holds a significant leverage in advancing its interest within the FTA negotiation with Indonesia, supported by its extensive experience with 76 FTAs in force—either provisionally and fully enforced—as well as other 27 agreements being adopted or ratified (European Commission, 2024). In contrast, Indonesia as an emerging country may struggle to maintain an equal footing with the EU. Thus, the stalled negotiations are believed to stem from areas of contestation rooted in each party's principles. Indonesia appears to encounter challenges in accommodating the EU's demands, as developed countries often dictate terms may conflict the interest of the developing country.

On quantitative side, numerous studies on the trade effect on socioeconomics have been widely observed, some of them include on poverty in a global context (Winters *et.al,* 2004), unemployment in India (Hasan *et.al*, 2007), inequality through Gini ratio and consumption growth in India as well (Topalova, 2010). In relation to this study, given the FTA has yet to be concluded, both parties are unable to assess its economic impact or whether it will provide mutual benefits. Therefore, measuring this impact is crucial, particularly for Indonesia, to the extent the country's key export products to the EU has socioeconomically impacted welfare standards at a regional level. This study will focus on specific exporting provinces rather than the entire country. This focus allows to accurately precise localised impact of trade given that not all Indonesian provinces produce the primary export-oriented commodities destined for the EU.

1.3 Research Objective

This paper aims to assess the impact of Indonesia's export to the EU on key socioeconomic indicators i.e., poverty, unemployment, Gini ratio, and consumption. These variables are selected for their relevance in capturing the broader welfare effect of trade. In addition to macroeconomic analysis, this paper will explore the respective interests of the EU and Indonesia on FTA negotiation. Whether the socioeconomic calculation shows positive or negative outcomes, it will inform the FTA negotiations by highlighting the benefits of trade—particularly for Indonesia—or addressing challenges to promote more equitable income distribution. By linking these two aspects, this paper serves as a holistic reference for understanding the relationship between trade impacts and negotiation dynamics.

1.4 Research Question

How does Indonesia's export to the EU socioeconomically effect country's welfare and what are the stumbling blocks hindering talks from achieving mutual understanding between the two?

Sub-questions

1. How does the Indonesia's export to EU affect key socioeconomic indicators (poverty, unemployment, Gini ratio, and consumption) in exporter provinces in Indonesia?

2. What are the contested areas between the two during the negotiations?

1.5 Scope and Limitation

In international trade terms, the commodities are classified under Harmonised System (HS) codes in order to simplify customs check. The codes are officially regulated under World Customs Organization (WCO) and are used by over 200 countries. As of the latest version in 2022, the HS codes are divided into 21 sections based on the commodity description. For the macroeconomic analysis, this paper only looks at Indonesia's export with its top 5 HS code export products to the EU. In this, not all provinces in Indonesia are being observed given the fact that not all of them equally produce the same commodities for export to the EU. There are only 8 provinces which meet this criterion. Besides, EU's export to the Indonesia and its implication will not take into account in this study.

On the FTA dynamics, this paper will solely focus on the disputed area of negotiation within certain chapters on the agreement—which will be explained further on the next chapter. Other chapters that may also significantly influence the overall agreement are not discussed in detail. However, this paper aims to balance both perspective from EU and Indonesia.

1.6 Organisation of the study

This paper consists of six chapters which the first one elaborates the background, problem statements, research objective and questions, scope and limitation as well as the organisation of the study. The following chapter will discuss the conceptual framework and relevant literature review from the previous works on international trade to dissect the EU-Indonesia's trade relation. Methodology in the third chapter explains the techniques used in this study as well as researcher's role and positionality. Chapter four discusses the econometric result and findings followed by chapter five discussing exploration of the negotiations. Chapter six concludes the research, emphasising policy implication and suggestions for future research.

Chapter 2
Conceptual Framework and Literature Review

This chapter emphasises on theories and conceptual frameworks that post as underlying lens to explore the trade relations to the socioeconomic indicators. It starts with dependency theory followed by the concept of FTA. Following these big concepts, cases on other countries on the effect of export to country's development and FTA dynamics of the EU with other countries.

2.1 Theoretical Framework

2.1.1. Dependency Theory

In the late 1950s, Argentine economist Raul Prebisch observed the unequal economic relationship between the United States (US) and Latin America. During his tenure at United Nations Economic Commission for Latin America (ECLA), Prebisch (1950; 1-6) argued that the outdated scheme of international division of labour had positioned Latin America in a position as a producer of food and raw materials for the industrialised countries, leaving no room for these nations to transition into industrialised themselves. In his book, Presbich (1950) categorised economies as "central" and "peripheral" to describe this dependency. From this perspective, the industrial centres—US and other Global North countries—benefit from low-price raw materials in order to produce manufactured goods sold globally, including back to the peripheral economies. This portrait locks the global south into exporting raw materials only, leading to so-called economically dependent (Prebisch, 1950; 3-4). Industrial centers are reluctant to share technological advancements as this could drive up the price of raw materials.

In parallel to this, Henri Singer shared a common finding which he found that the openness of investment and trade of the periphery countries are forcing their economic growth tapped for the interest of industrial centres (Ghosh, 2001; 81-82). This perspective complements Presbisch's work, leading to what become known as the Prebisch-Singer Hypothesis. In this, both argue that in the long-run, the terms of trade of primary goods are subject to significant downward. The hypothesis is strongly backed by the Engel's law, suggesting as the income increases, the need of primary goods moves away to manufacture products (Ibid; 82). Through this assumption, given the nature of manufacture industries is not as competitive as primary industries, should the industrial countries face overproduction, they are likely to withhold excess products rather than passing them on at lower prices to peripheral countries.

Through this hypothesis, Prebisch and Singer argued that the international trade has more benefitted developed countries. The fact that less-developed countries could not economically grow is also attributed to the monopolistic practice of developed countries, which control the products and factor prices (Ibid: 85). In spite of the developed countries have flooded the less-developed countries with investment, according to Singer (1950; 476), it will not boost the productivity and economic growth of the less-developed. Instead, this purposively intended to establish "economic imperialism". For these developed countries, economic development is not the main agenda, rather, their interest lies in extracting low-cost raw materials to be processed in their own economies (Singer, 1950 in Ghosh, 2001; 87).

Three decades later, Fernando Henrique Cardoso and Enzo Faletto highlighted the dependency theory specifically exploring the role of periphery countries within the global economic system. In this, resource-rich countries like those in Latin America are intendedly integrated into the world market characterised by power imbalance (1979; 18-20). This is because the decision-making of trade terms, economic policies, and technological advancement are politically centralised in industrial countries. That further creates asymmetrical power dynamics, therein the periphery countries are not fully autonomous in diversifying production. However, Cardoso and Faletto (1979; 16-20) argued that this phenomenon is driven by internal political structures which hampers the industrialisation itself. They argue that the local elite alliances, consisting of multinational businessowners, landowners, and politicians, utilised their status quo to join force with foreign corporations while maintaining self-interest and perpetuating economic dependency. The local political elites are used as an arm for multinational corporations in seeking access to raw materials, keeping the country politically and economically distant from being independent.

For Cardoso and Faletto, the dependency is a tip of an iceberg of economic lag, driven by the corrupted socio-political system of less-developed countries as well. Reflecting to the case in Latin America, the political system of such dependent countries is controlled by the authoritarian regimes, meaning to lower the tension of social movement that is contradictory to the interest of colluded elites and foreign investors (Cardoso and Faletto, 1979; 127-130). That is because the profits of international trade and investment are centralised within the top-tier of society, not being trickled down to the lower-class populations. To avoid social unrest, the authoritarian regimes tend to manage domestic dissent through limiting the freedom of union, controlling the flow of information, and crushing uprisings, strikes, and other protests (Ibid; 130). In dependency countries, an authoritarian regime thus serves as an engine to maintain the status quo, ignoring the long-term industrialisation.

In parallel to the centralised power of the authoritarian regimes, the driving factor of dependency also lies in capital flight and unequal investment. Frank (1969) examined this phenomenon in Chile and Brazil arguing that economic surplus is extracted by industrial centres from peripheries. According to Frank (1969; 6-7), the foreign multinational corporations (MNCs) control over the key mineral sector of the less-developing countries, aiming at export-oriented products thereby leaving these peripheral economies with limit economic growth and development. Additionally, the MNCs' operation is mainly backed by foreign direct investment (FDI) which targets the low-value-added sectors only. It means that the multiplier effect—the potential economic growth stimulation driven by the FDI—is extremely minimal for the host country. This circumstance leads to what Frank (1969; 18-20) refers to as unequal investment where the foreign MNCs ensure that the periphery remain trapped in primary production, without transferring technology for development.

2.2 Conceptual Framework

2.2.1. Free Trade Agreement

As outlined in the Chapter 1, FTA has become a crucial cooperation scheme within the context of international trade after the World War II, marked by the establishment of global trade agreement such as GATT which latter evolved into the WTO. Theoretically, an FTA plays a key role in lowering the tariffs of import duty, typically agreeing 80 – 100% tariff liberalisation in which according to Krugman *et.al* (2021; 289) the benefits are twofold; first, it will support to push for freer trade among countries; secondly, it prevents trade wars to occur. Building on this foundation, FTA has transformed to become a critical instrument for facilitating economic cooperations among nations, fostering trade and investment while creating frameworks for addressing NTBs as well. The scheme of FTA itself could vary widely, which started from bilateral scheme where two countries agreed on terms, multilateral agreements where multiple countries are participating in tariff liberalization under one single agreement, and trans-regional agreement that involves multiple countries across different regions.

However, Krugman *et.al* (2021; 277) argued countries pursuing FTA are often motivated by political interest rather than by consideration of national cost and benefits. This highlights that the geopolitical alliance matters and being prioritised over purely economic goals. For this instance, the BRICS bloc, which consisting of Brazil, Russia, India, China, and South Africa, aims to counterbalance the Western-led economic domination of Group of seven (G7). Nevertheless, international trade through FTA is important for countries, particularly developing ones. Krueger (1995; 3) argued that fast-growing growth economies are marked by openness to global market which accelerates growth through skyrocketing exports and high fractions of GDP. In addition to above-mentioned, countries involved in international trade will see increased economic efficiency and specialisation (Krugman *et al*, 2021; 70), larger economies of scale (Ibid; 52), technological transfer (Grosman and Helman, 1991), integrated into global value chain (GVC) (Baldwin, 2016), and FDI boom (Ibid).

It is noteworthy for developing countries, as Krueger (1995; 44) stated, the proposal of having greater liberalisation with developed countries should consider the assurance that protectionist measures from developed countries not obstruct the benefits they expect to gain. This is crucial because, developing countries are frequently pressured to reduce tariff and quotas to minimal level and to cut subsidies to minimal levels and cut subsidies to create so-called "level playing field", albeit they also need to protect their domestic markets. Developing countries in this area have been struggling to meet the protectionist measures as they lack resources. A key point to take a look closer is that the protectionist is often 'hidden' not in a form of tariff or quota but complex regulation and standard that can act as barriers to trade (Krueger, 1995; 45).

Additionally, through the perspective of developing countries, FTA is criticised for creating the uneven distribution of benefits—particularly involving developed countries—since, in practice, the resources i.e., infrastructure, technology, and resources are not evenly equal (Rodrik, 1997). This leads to the developed countries to reap the majority of the benefits. Moreover, Desker (2004) noted in regions such as Asia, the FTA has been transformed beyond simple WTO-ruling for tariff liberalisation, but dictating terms on domestic governance, social impacts of trade which often imposing double standards on developing countries. This drives the agreement has to go through a prolonged delay and deadlocks.

2.3 Literature Review on FTAs

Studies on evidence of trade liberalisation carrying out impacts on socioeconomic indicators could be started from Winters *et. al* (2004). The authors revealed that trade liberalisation does not result in poverty alleviation at all contexts. This is due to the poorer is largely unskilled who relies on traditional job market whilst the market openness is technically narrowing on specific sector of which demanded on semi and skilled workers. This implies that the poverty level could remain the same or even worsen if they fall behind a new technology-led industry. In the context of resource-rich countries, the trade liberalisation always aimed at stimulating the strong agriculture, mineral resources, and traded sector of which the companies compete in international market (ibid, 2004 p. 75). It means those unemployed on these sectors could not benefit and may not reduce poverty for unskilled workers.

In parallel to trade liberalisation, countries with FTA in place have experienced both advantages and disadvantages. In the case of Australia-US (AUSFTA), the agreement has negatively impacted the Australian export to the US market, declining by 10% in the first five years after the agreement in force (Armstrong, 2015). This is driven by specific agricultural exclusion with the agreement such as Australian sugar that is not granted by tariff and quota liberalisation. However, AUSFTA slightly increased Australia's GDP by 0.04% only over a 10-year period, which is relatively small.

Moving forward to the FTA that is initiated by the EU across the world. The bloc has been actively engaging with counterparts specifically in Southeast Asia under the EU-Indo Pacific Strategy. Renewed in April 2021, the strategy directs the EU to increase its partnership and engagement specifically on trade. The rationale behind this is that the bloc aims for 'de-risking' from being dependent on China particularly the raw materials used for high-tech manufactures (Alauddin, 2024).

However, during which the 27-countries bloc has established FTA with, several areas of contestation arise. In the case with Vietnam (EVTA) for instance, most of which are related to human rights such as freedom of expression and association (Nessel and Verhaeghe, 2020 p.5 and 15), child labour (Tran, 2019), and violence against woman (Sicureli, 2015. p.237). Even before the bilateral setting, the European Ombudsman concluded that the European Commission failed to carry out a specific human right impact assessment. On EU-Vietnam assessment, the ombudsman constituted that the commission has done a maladministration due to failure to carry out a human rights impact assessment (European Ombudsman, 2016).

In addition to Vietnam, the case with South Korea prior the FTA being in place was revolving around matching the labour law and hygiene standards (Hoang and Garcia, 2022). Under the Trade and Sustainable Development (TSD) chapter of the agreement, EU enforced South Korea to ratify fundamental convention of the International Labour Organisation (ILO). In this case, EU argued that South Korea had yet to meet FTA's labour standard through restricting trade union activities. Apart from Asian countries, FTA negotiation with Mercosur countries—Argentina, Bolivia, Brazil, Paraguay, and Uruguay—also faced a stumbling block. Concerns over deforestation in Amazon forest and sustainable agricultural practice become the main problem (Ghiotto and Echaide, 2019). Observing these cases, most of the concerns from the EU's end revolve around environment, sustainability, and human right issues.

In the FTA involving developed and developing countries, the EU-Vietnam for instance, the agreement sees the positive effect on Vietnamese employment. Textiles and apparel, leather and footwear, and food processing sectors have increased by 0.063% respectively (Ngo *et al.* 2024). In addition to this, the wages for workers in export-oriented industries increase by 11% in average. Another case involving Japan – Philippine Economic Partnership Agreement (JPEPA) not only focused on who gains what, but also providing development assistance (Navarrete and Tatlongharil, 2018). In this, Japan offers capacity building for Pilipino manufactures in the sector of electronics and automobile manufacturing to meet international standards. For human capital development, Japan also promotes Pilipino labour mobility through providing training programs in healthcare, engineering, and information technology to work in Japan (Ibid).

Specifically on FTAs involving Indonesia, the country has numerous records of bilateral and multilateral FTA with countries across the globe. Tampubolon (2020) reveals that ASEAN-China Free Trade Agreement (ACFTA) has boosted Indonesia's export to China by 29.90% after the agreement takes effect. However, specifically on manufactured goods trade flow, ACFTA holds no significant impact, suggesting the minimum realisation of knowledge transfer from Chinese counterparts (Anggoro, 2018), arguing that Indonesia sees a declining trend of export and growing import of manufactured goods from China. Apart from China, ASEAN-Korea agreement on Trade in Service (AKTIS) also contributes to Indonesia's economy. Trade in services which include construction, education, and tourism are the topmost enjoying sectors along with Korean FDI in Indonesia between 2010 – 2012 skyrocketing by 143%, reaching USD 692 million in 2012 (Tongzon and Cheong, 2016).

Additionally, Kustiari and Hemanto (2018) further explored the ASEAN-India FTA focusing on the impacts on Indonesia and found that the trade agreement has contributed to the GDP growth in leading agricultural producer provinces. Sumatera and Kalimantan see an increase by 1.1% and 0.6% respectively. Moreover, poverty level sees a declining trend in Sumatera and Kalimantan islands. However, provinces in Java, Papua, and Maluku see fewer benefits. This indicates that, in Indonesia, FTA indeed economically attributes welfare, though with regional disparities.

Chapter 3
Methodology

This paper uses mix-method to explore the research question and sub-questions. The integration of both quantitative and qualitative is essential for a comprehensive analysis. Within the quantitative approach, it allows for the assessment of how Indonesia's export to the EU impacts key welfare indicators in topmost exporting provinces. This economic analysis provides an underlying argument to contextualise and inform the subsequent qualitative examination. The qualitative component focuses on dissecting the current status of the EU-Indonesia FTA negotiations, exploring contested area within specific chapters or regulation of the draft agreement, and identifying potential areas of compromise.

3.1 Quantitative Approach

Within the quantitative framework, it will focus to explore the extent Indonesian export activities to the EU impacts poverty, unemployment, Gini ratio, and consumption. In providing the export values equally across provinces, this research will express it as per capita and per province's GDP.

Considering the huge type of goods and service within the international export activities, this research narrows into key commodities in which EU imports the most from Indonesia according to UNCOMTRADE (2024). Those 5 exported products alone, under HS code, account for 21.97% of Indonesia's total export to the EU out of 97 HS codes. This depicts that these variables contribute significantly to the Indonesia's export product. The detail of these 5 are represented below:

1. HS15: Animal, vegetable or microbial fats and oils and their cleavage products; prepared edible fats
2. HS26: Ores, slag, ash
3. HS38: Miscellaneous chemical products
4. HS64: Footwear, gaiters and the like; parts of such articles
5. HS85: Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles.

The data retrieved will cover the period from 2002 to 2022. Given these are micro data, the availability of them is object to payment of BPS-Statistics Indonesia. At the first stage, the researcher picked 18 provinces where those five commodities are produced and exported to the EU. However, following the completion of data cleaning sourced from BPS-Statistics Indonesia, the researcher found only 8 provinces had complete export data to the EU with no missing years between the timeframes.

3.2 Vector Autoregression Model

This study uses vector autoregression (VAR) to examine the dynamic relationship between export per capita and export per GDP at provincial level against socioeconomic variables. VAR is suitable for this analysis as it allows the modelling of multiple endogenous variables simultaneously over time. The focus of the variables includes export per capita and export per GDP as the shock variable whereas poverty, unemployment, Gini ratio, and consumption expenditure as the dependent variables. The VAR model could be put into a breakdown as below (Lütkepohl, 2005. p. 4):

$$y_{pt} = v + \alpha_1 y_{t-1} + \ldots . + \alpha_p y_{t-p} + \epsilon_t \qquad \textbf{(1)}$$

In this, y_t represents a vector endogenous variable at time *t* representing the socioeconomic variables. Additionally, v is a vector of intercept terms. $\alpha_1, \alpha_2, \ldots \alpha_p$ are matric coefficient corresponding to the lag of the variables while ϵ_t is a vector of white noise error terms.

3.2.1 Information Criteria

Likelihood Ratio (LR) Test

$$\lambda LR = 2[ln\iota(\widetilde{\delta}) - ln\iota(\widetilde{\delta_r}) \qquad \textbf{(3)}$$

LR test compares the fit between two nested models, one is zero restriction and one more than zero in the VAR model. Lütkepohl (2005; p. 139) stated that λLR determines which of those models fit the significant better in terms of selecting the lags level.

Akaike Information Criterion (AIC) and Schwarz-Baynessian Information Criterion (SBIC)

$$AIC(m) = ln|\widetilde{\Sigma_u}(m)| + \frac{2mK^2}{T} \qquad \textbf{(4)}$$

$$SBIC(m) = ln|\widetilde{\Sigma_u}(m)| + \frac{lnT}{T} mK^2 \qquad \textbf{(5)}$$

Lütkepoh (2005, p. 147 & 150) explains that AIC and SBIC—he refers SBIC as BIC—both determine the lowest value within the model fits the best for further analysis. It represents the model holds an optimal balance of fit.

Hannan-Quinn Information Criterion (HQIC)

$$HQ(m) = ln|\widetilde{\Sigma_u}(m)| + \frac{2lnlnT}{T} mK^2 \qquad \textbf{(6)}$$

In principle, HQIC has a similar way of analysis to the previous criterion, yet it is deemed more conservative due to its consistent for univariate processes $(K > 1)$ (Lütkepoh, 2005. p. 150).

3.2.2 Model diagnostics

Eigenvalue Stability Check

$$A = \begin{bmatrix} A_1 & A_2 & & A_{P-1} & A_P \\ I_K & 0 & \cdots & 0 & 0 \\ 0 & I_K & & 0 & 0 \\ \vdots & \vdots & \ddots & \vdots & \vdots \\ 0 & 0 & \cdots & I_K & 0 \end{bmatrix} \qquad \textbf{(7)}$$

Eigenvalue test consists of above companion matrix A. The test is stable if only the values satisfy <1 or within the unit circle (Lütkepoh, 2005. p. 15)

Lagrange Multiplier Test

$$\widehat{u_t} = v + A_1 y_{t-1} + \ldots + A_p y_{t-p} + D_1 \widehat{u_{t-1}} + \ldots + D_h \widehat{u_{t-h}} + \epsilon_t \qquad \textbf{(8)}$$

In a condition there is no serial correlation in the residuals up to the specified lag *h,* i.e., $D_1 = D_2 \ldots D_h = 0$ it means that the test rejects the null hypothesis (Lütkepoh, 2005. p. 171).

Augmented Dickey-Fuller Test

$$\Delta y_t = \alpha y_{t-1} + \sum_{i=1}^{k-1} \varphi_i \Delta y_{t-1} + e_t \qquad \textbf{(9)}$$

The Augmented Dickey-Fuller (ADF) test is a unit root test to determine the stationarity level of the variables whether a variable has a unit root. It could indicate non-stationary (Durlauf and Blume, 2010. p. 353)

Granger causality test

$$X_t = \sum_{j=0}^{\infty} a_j u_{t-j} + \sum_{j=0}^{\infty} b_j v_{t-j} + \epsilon_{X,t} \qquad \textbf{(10)}$$

The test aims to determine the significance of the lagged values within the model for forecasting purpose (Durlauf and Blume, 2010. p. 120). It will lead to Granger-cause interpretation if the result rejects the null hypothesis.

3.2.3 Impulse Response Function (IRF)

IRF examines the response of one variable on a shock in another variable in a higher dimensional system (Lütkepoh, 2005. p. 51). The examination allows the researcher to track the effect of a one-time shock across future periods. The response function is based on moving average (MA) representation of VAR model. Based on Lütkepoh (2005, p. 52), it could be defined as:

$$IRF_{j,k}(i) = \phi_{jk,i} \qquad \textbf{(11)}$$

Where ϕ represents the coefficient of element of MA coefficient matrix and response of a variable.

3.3 Policy Analysis

As for the qualitative approach, this research uses policy analysis to explore the FTA negotiation coming along. The researcher uses secondary data retrieved from European Commission that includes textual proposal, factsheet, and reports of each negotiation rounds. The European Commission has a comprehensive assessment conducted by the third party which is Sustainability Impact Assessment (SIA)[5] in 2020. The assessment is consisted of position paper, report papers compromising of final, interim, and inception report, as well as term of reference (ToR). The assessment is used to underpin EU's interest when dealing with Indonesia in terms of economics, social, human rights, and environmental aspects (European Commission, 2020). On the Indonesia's side related to the

[5] Development Solution Europe Limited (DSEL) is a consulting firm prepared the assessment. The European Commission has engaged with them to assess social economic impact of the FTA with Indonesia. The report does not represent an official view of the Commission.

negotiation, the official accessible document is highly limited, only one that is concluded by a renowned think tank, Center for Strategic and International Studies (CSIS) on behalf of Ministry of National Development Planning and other press release by Coordinating Ministry of Economy.

3.4 Qualitative Interview

This study uses semi-structured and in-depth interviews. The researcher prepares 8 – 10 open-ended questions divided into several topics based on the issues being debated. While efforts were made to ensure the gender diversification, however, all the positions related to the topics under study were helmed by men. Only 1 woman interviewee was included in the list.

Throughout the interview, the researcher follows the question lists in order to keep the conversation on track as per topics. However, the informants are encouraged to add any information related to the topics beyond the questions being asked. This aims to give them a space to talk freely in deep manner which is in line with Brinkmann's (2022) guideline on how to keep the conversation in flow within the semi-structured interview settings. Apart from that, considering sensitive nature of confidential information from both sides, the researcher adjusts his approach to the informants. When interviewing Indonesian stakeholders, the researcher presents himself as an Indonesian student with a scholarship from Ministry of Finance while with the European stakeholders he introduces himself as an Indonesian pursuing education in the Netherlands since his Bachelor program in 2021 and then working as a policy consultant who has experience in handling cross-border market issues between Indonesia and Australia. This allows two parties feel comfortable during the conversation.

This study will not use direct quotation from the interviews rather to use a third person perspective in explaining the views of the case discussed. This relates to the ethical consideration which will be explain in the next sub-chapter.

3.5 Technique of Obtaining the Informants

The timeframe of conducting the interview started in July – September 2024. The informants consisted of 9 individuals which of them are selected using purposeful and snowball sampling. In this, all of the European stakeholders are reached out using purposeful sampling strategy given their information-rich background related to the issue. The researcher conducted the fieldwork in Brussels twice in late August and early September, coordinating with the availability of European stakeholders after the summer period. The researcher simply emailed Delegation of The European Union to Indonesia and Brunei Darussalam which subsequently they connected the researcher to the respective high-level personnel and then arranged for the engagement accordingly in Brussels.

For Indonesian stakeholders, particularly those in government ministries, the researcher contacted his relative at Ministry of National Development Planning to obtain an introduction to someone at Trade, Investment, and International Economic Cooperation at the same ministry. Nevertheless, the individual was resisted to speak given her role is not involved at the FTA negotiation. She subsequently introduced the researcher to Indonesia's chief negotiator from the Ministry of Trade. Apart from this case, the researcher has a personal relation to Industry Attaché at the Indonesian Embassy in Brussels which also accredited to the EU. He subsequently introduced the researcher to other Indonesian stakeholders based in Brussels.

In collecting the data, interviews with European and Indonesian stakeholders in Brussels were conducted in-person basis. However, the online Zoom meeting was chosen with Indonesian stakeholders based in Jakarta at the agreed time.

Table 1 List of informants

<table>
<tr><th>Name</th><th>Position</th><th>Institution</th><th>Role at FTA negotiation</th><th>Interview Date</th></tr>
<tr><td>Anonymous</td><td>Deputy Head</td><td rowspan="2">Unit for South and Southeast Asia, Australia, and New Zealand – Directorate General for Trade of the European Commission</td><td>EU Chief Negotiator</td><td>4 September 2024</td></tr>
<tr><td>Anonymous</td><td>Official</td><td>Involved in representing the EU team</td><td rowspan="3">27 August 2024</td></tr>
<tr><td>Edison Bako</td><td>Executive Director</td><td rowspan="2">European Business Chamber of Commerce in Indonesia</td><td rowspan="2">Advocating for EU business interests to EU representatives</td></tr>
<tr><td>Daniel Kandou</td><td>Advocacy Officer</td></tr>
<tr><td>Johni Martha</td><td>Director</td><td>Directorate of Bilateral Trade Cooperation, Indonesian Ministry of Trade</td><td>Indonesia Chief Negotiator</td><td>23 August 2024</td></tr>
<tr><td>Antonius A Budiman</td><td>Trade Attaché</td><td rowspan="2">Embassy of the Republic of Indonesia in Brussels, Accredited to Luxembourg and EU</td><td>Involved in representing Indonesia negotiator team</td><td>08 August 2024</td></tr>
<tr><td>Habibi Yusuf Sarjono</td><td>Industry Attaché</td><td>Supporting party with limited direct involvement</td><td>27 August 2024</td></tr>
<tr><td>Dandy Rafitrandi</td><td>Researcher</td><td>Department of Economics at Centre for Strategic and International Affairs (CSIS)</td><td>External researcher</td><td>09 August 2024</td></tr>
<tr><td>Fajar Hidayat</td><td>Managing Partner</td><td>Trade-off ID, a business advisory firm</td><td>External party and opinion maker</td><td>13 August 2024</td></tr>
</table>

Source: Author's construction

3.6 Positionality of the research

In deep diving into data collection, the view of the researcher is pivotal to shape perspective of the results finding. Holmes (2020) further emphasised this aspect as positionality, which involves clearly lies on ontological background and epistemological assumption of the researcher. Therefore, in this study, the researcher identifies himself as Indonesian, male, and currently pursuing higher education in Netherlands which is one of the EU member states.

As the home country of the researcher is a part of focus of this study, this implies that the point of view of the researcher would be slightly bias. However, conditioned by his professional experience as a policy consultant in the last 3 years and academic journey during his BA extension program at Utrecht University and MA in-progress program at Erasmus University Rotterdam, the notion of internationalisation and open-free policy have coloured the way researcher sees the negotiation dynamics. Thus, the researcher touches upon the context of the research through 'insider or outsider' perspective as underlined by Holmes (2020), seeking the best practice for both EU and Indonesia. The researcher acknowledges that this issue is a new area to explore in his entire academic and professional journey. Nevertheless, his background as a policy consultant in the field of political-risk and stakeholder management at KRA Group and knowledges from Governance and Development Policy major at Erasmus may pave the way during the analysis process.

Overall, the researcher attempts to use general explanation in this research, aiming for the audience with less background on international trade to follow through and understand correctly.

3.7 Ethical Consideration

Prior conducting interview, the researcher shared a consent form to each interviewee. The form asked the consent for the researcher to collect personal data, interview being audio recorded, having photo for documentation, permission to contacted again for new research, and their answer to be used in the paper with their name is excluded but the answer may be indirectly traceable to them. The European stakeholders refused to be directly quoted in their real name while the Indonesian stakeholders expressed no such concerns.

Therefore, considering the FTA has yet to conclude as well as the conversation with both parties are sensitive and confidential, the researcher will keep their anonymity in this study. This aims to avoid any potential risks or discomfort resulting their participation in this research and to prevent dismantling the broader EU-Indonesia relations.

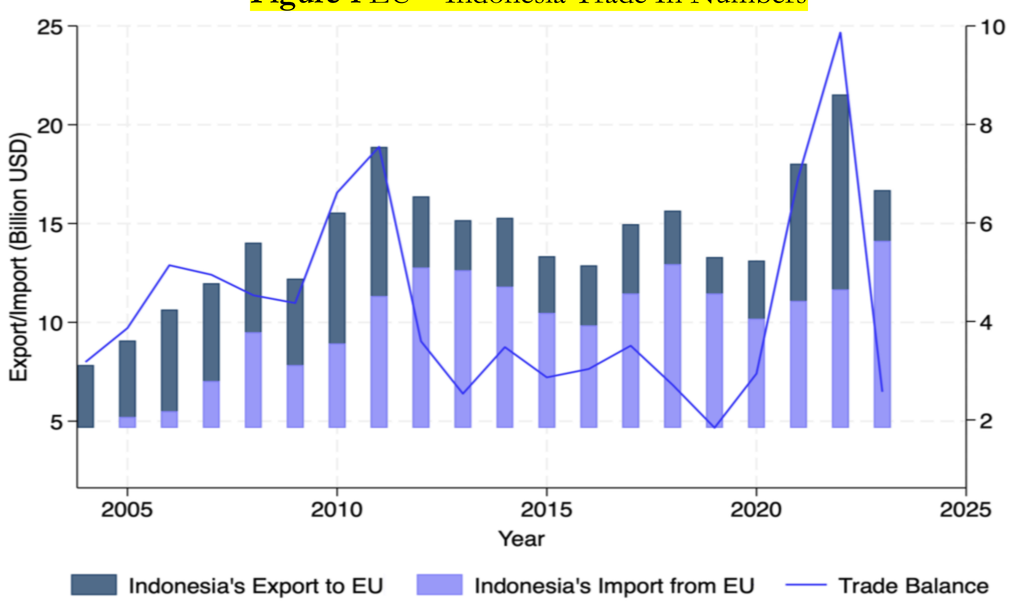
Chapter 4
Econometric Results and Findings

4.1 EU-Indonesia in Trade Numbers

Indonesia is a sleeping giant in Asia-Pacific region where in 2023, the country is the largest economy in Southeast Asia with total GDP of USD 1.3 billion. The country represents one third of ASEAN's GDP. For Indonesia, the EU is the fifth largest trading while Indonesia is the fifth largest destination of the EU among ASEAN countries in 2023. In this case, Indonesia remains ranked 33rd for EU's export destination which only accounts 0.17% of the bloc's total export to the world. In 2023, the trade between the two showed that Indonesia had a surplus over the EU where the country's export to the EU amounted to USD 16.6 billion with the total imports reached USD 14.1 billion. The Indonesian export-oriented products for the EU are mainly fats and oil, mineral products, and machinery and electrical equipment.

This surplus trend has persisted for at least 20 years, indicating Indonesia is an important trade ally for the EU. In terms of FDI as per Quarter-II of 2024, the EU has the FDI amounting to USD 878.7 million in Indonesia, pretty far behind China, Singapore, USA, and Japan. In addition to the 2024 report, however, the EU's cumulative investment stock in Indonesia is totalling EUR 19.3 billion.

Figure 1 EU – Indonesia Trade In Numbers



**) All data presented here are in nominal values, not adjusted for inflation*

Source: Author construction based on UN Comtrade (2023)

The EU-Indonesia FTA is projected to boost both sides' trade value for 2032 (European Commission, 2020). For EU, the bloc will see EUR 6.32 to EUR 7.76 billion increase under conservative and ambitious liberalisation scheme respectively. In return, Indonesia is projected to see its bilateral export to the EU increase by EUR 6.75 – 6.95 billion. In regard to GDP, the FTA will also contribute to accelerate EU and Indonesia's real GDP comovement. For the EU, the bloc is estimated to experience

GDP increase of 0.002% to 0.11% whilst Indonesia will see 0.035% to 0.187% GDP increase. Both of which are, respectively, under conservative and ambitious liberalisation scheme.

In addition to the forecast above, Indonesia has an established footprint in exporting products under HS Section III, V, and XVI which include fats and oil, segmented in both agriculture and animal products, mineral as a result of mining, and machinery and electrical equipment (see Table 2). These 3 major Indonesia's exported products to the EU amounted USD 6.5 billion in 2023. The top export destination countries are mainly concentrated in the West Europe consisting of the Netherlands, Germany, Spain, Belgium, France, with Italy being a notable exception in the Southern Europe (see Figure 3). These products show the backbone of Indonesia's driving export commodities to the EU. Fats and oils, for instance, which also includes palm oil as the main contributor with falls under HS15 as well as HS Section III play a pivotal role in EU's agricultural sector including cooking oil, processed foods, biodiesel production, and also manufacturing industries since its derivatives are crucial inputs.

For this instance, the Netherlands, as a trade hub in the EU with its high volume of food and beverages product in the region, indicates its reliance on Indonesia to support its domestic production. In 2023, the import value of HS15 alone accounts for USD 506.1 million, the second highest following the HS 38 (UN Comtrade, 2023). A similar trend is seen in Spain, where HS15 was the highest imported products from Indonesia, amounting to USD 1,01 billion in 2023 (UN Comtrade, 2023).

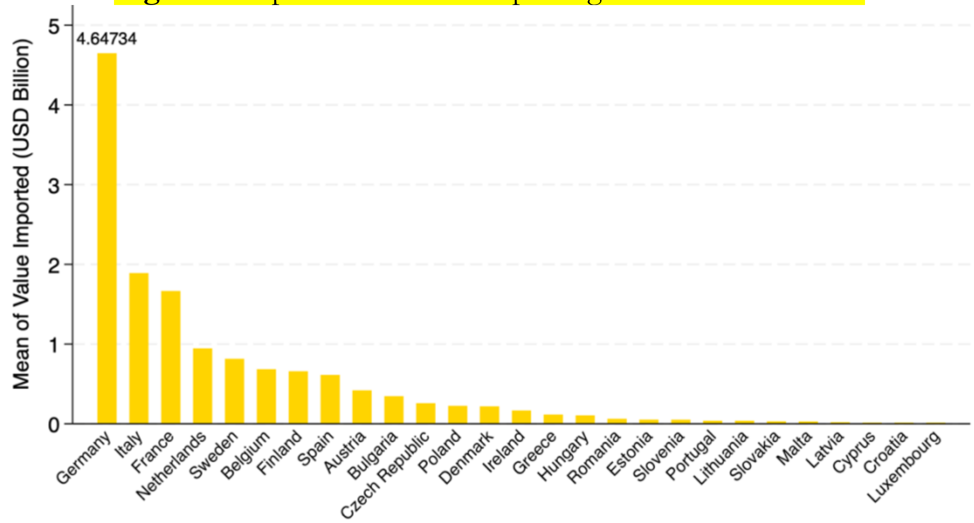
Table 2 Market value of Indonesian products in the EU in 2023

HS Section	Description	Value (USD million)
III	Fats and Oils	2,380.43
V	Mineral Products	2,161.16
XVI	Machinery and Electrical Equipment	2,006.69
XII	Footwear and Headgear	1,699.91
VI	Chemical Products	1,621.78
XI	Textiles	1,216.61
IV	Foodstuffs and Tobacco	1,113.96
XV	Base Metals	1,099.15
VII	Plastics and Rubber	782.86
XX	Miscellaneous Articles	511.64
IX	Wood and Cork	353.21
XVII	Transport Equipment	305.00
II	Vegetable Products	301.27
X	Paper Products	271.44
I	Animals Products	266.22
XVIII	Precision Instruments	249.85
VIII	Hides and Leather	210.52
XIV	Pearls and Precious Metals	77.13
XIII	Stone and Glass	59.58
XXI	Art and Antiques	0.74
XIX	Arms and Ammunition	0.36
	TOTAL	16,694.48

Source: Author construction based on UN Comtrade (2023)

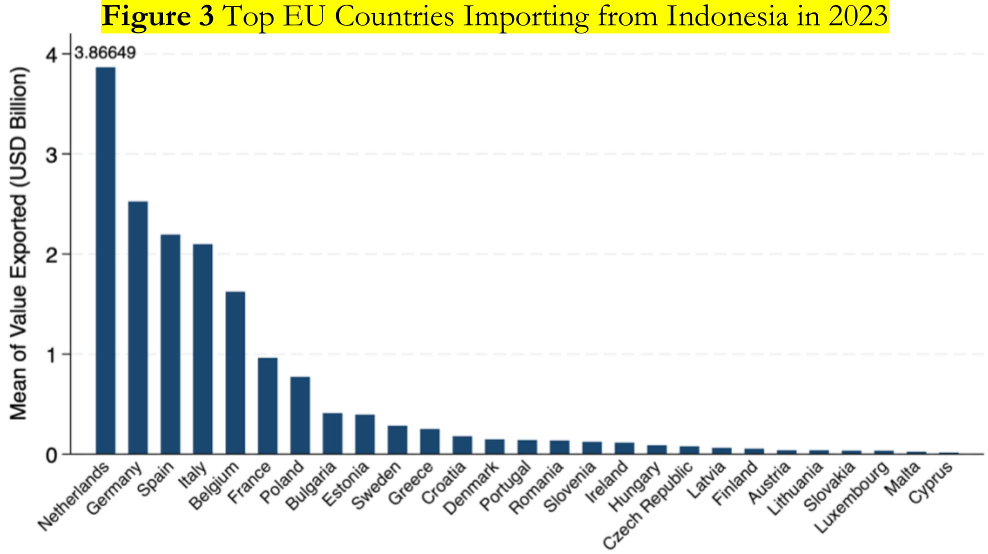
In addition to this, the mineral products under HS Section V, consisting of HS25, 26, and 27, recorded the second-largest category of imports to Germany in 2023. In it, HS26 reached USD553 million followed closely by HS85 from HS Section XVI, which amounted to USD 551 million (UN Comtrade, 2023). While HS64—footwear—was the largest category of imported goods into Germany, Indonesia's HS26 and HS85 contributed to German manufacturing sector given the country's well-known status as an industrial powerhouse within the EU. Additionally, Germany's importance role in trade extends beyond imports. In fact, the country was the largest EU exporting countries to Indonesia with the total exports valued at USD 4.6 billion in 2023 (see Figure 2).

Figure 2 Top EU Countries Exporting to Indonesia in 2023



Source: Author construction based on UN Comtrade (2023)

Figure 3 Top EU Countries Importing from Indonesia in 2023



Source: Author construction based on UN Comtrade (2023)

According to UN Comtrade (2023) Germany's top two exported products to Indonesia fell under HS Section XVI, amounting to USD 1.3 billion, and representing 28.4% of total country's export values. This indicates that Indonesia's machinery industry including electrics, mechanical appliances, etc also relies to the EU. This is because, Indonesia's high-tech domestic electronic and industrial production are less-developed compared to Germany. This interdependence shows a complementary trade relationship between the Indonesia and Germany, and EU as a whole, where Indonesia supports the raw materials whilst the Germany provides advance technology, industrial goods, and machinery.

4.2 Quantitative Analysis on VAR Model

The findings from the VAR analysis on the impact of Indonesia's exports to the EU reveal varied results across selected provinces, due to the different levels of stationarity among the independent and dependent variables, leading to diverse interpretations (see Appendix 1). Additionally, this study determines the lag length of variables based on the significance of LR, AIC, HQIC, and SBIC criteria (see Tables 4 and 5). The individual VAR coefficients below offer limited interpretive value. However, the IRF analysis will be discussed in the following chapter.

Table 3 Description of Variables

Variables	Unit Description at the Original Level
Poverty	: Percentage of population living below poverty line out of total population[6]
Unemployment	: Percentage of unemployed workforce out of total population[7]
Gini ratio	: Closer to 1 indicates perfect inequality
GDP in Consumption	: USD, real term
GDP per Capita	: USD thousand[8]
Export per Capita	: Total real export value per person in USD
Export per GDP	: Total real export value (in 1 USD) relative to GDP per capita

Source: Author's construction

Table 4 Socioeconomics lag length

Province	Lag	LR	AIC	HQIC	SBIC
North Sumatera	3	86.158*	4.03331*	4.28666*	6.58197
Riau	3	44.902*	7.69071*	7.94405*	10.2394
South Sumatra	3	101.83*	2.27264*	2.52598*	4.8213*
Riau Islands	3	99.414*	9.49611*	9.74945*	12.0448*
Jakarta	3	188.35*	14.6401*	14.8934*	17.1888*
Central Java	3	119.73*	.782732*	1.03607*	3.33138*
East Java	3	145.97*	-.79024*	-.536899*	1.75841*
East Kalimantan	3	135.21*	4.04959*	4.30293*	6.59825*

**)Optimal lag*

Source: Author's construction

[6] Poverty line (*Garis Kemiskinan/GKR)* represents the minimum income for adequate daily consumption. In Indonesia, it was recorded at IDR 535,547/capita/month which is equivalent to USD 33 in 2022. Given this study covers a 20-year period, GKR values are adjusted to reflect each specific year observed.

[7] Unemployment refers to the open unemployment rate (*Tingkat Pengangguran Terbuka/TPT*). It refers to the percentage of workforce that is unemployed, actively seeking a job, preparing to start business, or yet to begin working. The workforce in Indonesia includes individual aged 15 to 65. Value rate of each year is adjusted to the fluctuating annual trend.

[8] In real value based on 2010 constant price in USD thousand.

Table 5 Consumption lag length

Province	Lag	LR	AIC	HQIC	SBIC
North Sumatera	3	14.336*	30.7765	30.8111	31.4525
Riau	4	10.827*	34.6091	34.6537	35.4783
South Sumatera	4	11.313*	29.1547	29.1992	30.0239
Riau Islands	4	12.078*	36.3551	36.3996	37.2243
Jakarta	4	11.167*	32.2161	32.2607	33.0853
Central Java	5	94.277*	24.1928*	24.0998*	25.197*
East Java	4	13.196*	27.4777	27.5222	28.3468
East Kalimantan	3	12.608*	29.8752*	29.9435*	30.5614*

**)Optimal lag*

Source: Author's construction

4.2.1 Effects on Socioeconomics

In this section, results represented here are statistically significant (see Table 6). *Firstly*, Riau sees 1 USD increase in the change of export per capita correlates with 0.0026 percentage point reduction in the of poverty and a 0.0001 reduction in the change of the Gini ratio after one year. This represents 0.038% of the total poverty range and 0.1% of the Gini range from 2002 to 2022, indicating a small short-term effect of the province's export activities to the EU on those variables.[9] In parallel to this, province also sees an unemployment to decrease at 0.003 percentage point two years later when there is a 1 USD increase in the change of export per capita. This effect constitutes around 0.025% decrease of the total unemployment rate which is relatively small.

Secondly, Jakarta also demonstrates notable impacts mainly in poverty and unemployment. The Indonesia capital sees a 1 USD increase in the change of export per capita contributes reduction of 0.004 percentage point in the first year and 0.006 by the third year. The reduction driven by the export activities represents approximately 0.1% to 0.13% of Jakarta's observed poverty range, which is relatively small. For Gini ratio, the inequality raises by 0.07 in the first year and 0.04 in subsequent years, indicating an increase of around 17%. This number shows a substantial effect. Additionally, unemployment decreases by 0.01 in the first and third years, representing reduction of about 0.06%, showing a small effect.

Thirdly, South Sumatera displays an interesting mix of impacts where the province sees a 1 USD increase in the change of export per capita has a reduction of 0.002 Gini ratio one year and two years later. This reflects the export activities to the EU decreases province's inequality by 1.2% which is relatively small effect. Conversely, the poverty holds a 0.004 percentage point increase against the change of the export per capita which only represents 0.02%, a very minor increase in poverty levels.

4.2.2 Effects on Consumption Expenditure

The VAR result on consumption expenditure of selected provinces is primarily optimal beyond the L3 length (see Table 5). In this also, the stationarity level of independent variables varies, some of variables being stationary without differencing while others require once-differencing and/or twice-

[9] This interpretation applies to below sections.

differencing. Thus, this variation effects the researcher in interpreting the results. The VAR result only sees 3 provinces having a significant effect of export per GDP on GDP in consumption.

Firstly, North Sumatera sees a 1 USD increase in the change of export per GDP results in a 0.00003 USD increase in the acceleration of GDP in consumption three years later, a minor effect contributing 0.03% only. It simply means that the province's export activities to the EU sees an extremely less effect to the consumption growth. *Secondly*. South Sumatera holds its coefficient level at L1, indicating that a 1 USD increase in export per GDP is in line with a 0.0001 USD decrease in the change of GDP in consumption in the following year. The reduction is equal to 0.1% effect which is relatively small. *Thirdly,* Central Java displays more a complex time-lagged relationship.

The province holds coefficient levels at L2, L4, and L5. These mean that a 1 USD increase in export per GDP results in a 0.0001 USD decrease in the acceleration of GDP in consumption two years later, 0.002 reduction USD four years later, but sees a 0.002 USD increase five years later. This reflects small fluctuation that contribute around 0.2% of the range in GDP consumption growth.

Table 6 VAR Analysis Results

Province	Dependent Variable	Lags of Export Per Capita	Coefficient	Standard Error
North Sumatera	diff_giniratio	L1	-0.0004**	(0.0002)
	diff2_gdpinconsumption	L3	0.00003**	(0.00001)
Riau	diff_poverty	L1	-0.0026***	(0.0009)
	diff_giniratio	L1	-0.0001***	(0.00003)
	diff_unemployment	L2	-0.003***	(0.0012)
South Sumatra	diff_giniratio	L1	-0.002**	(0.0009)
		L2	-0.002***	(0.0007)
	diff_poverty	L3	0.04**	(0.02)
	diff_gdpinconsumption	L1	-0.0001**	(0.00005)
Riau Islands	diff_poverty	L1	0.001**	(0.0006)
		L3	-0.004***	(0.0007)
	diff_giniratio	L2	0.0001***	(0.00003)
	Unemployment	L2	0.002**	(0.001)
Jakarta	diff_poverty	L1	-0.004***	(0.001)
		L3	-0.006***	(0.001)
	diff_giniratio	L1	0.07***	(0.02)
		L2	0.04***	(0.01)
		L3	0.04**	(0.02)
	diff_unemployment	L1	-0.01***	(0.002)
		L2	-0.004**	(0.002)
		L3	-0.01***	(0.002)
Central Java	diff_poverty	L1	0.05***	(0.01)
		L2	-0.03*	(0.02)
	diff_giniratio	L2	0.001**	(0.0004)
	diff_unemployment	L1	0.05***	(0.005)
		L2	0.04***	(0.008)
		L3	-0.03***	(0.009)
	diff2_gdpinconsumption	L2	-0.0001***	(0.00003)
		L4	-0.002***	(0.0005)

Province	Dependent Variable	Lags of Export Per Capita	Coefficient	Standard Error
		L5	0.002***	(0.0005)
East Java	Diff_poverty	L1	0.04***	(0.009)
		L3	-0.1***	(0.01)
	Diff_giniratio	L1	0.003***	(0.0006)
		L3	0.002***	(0.0007)
	diff_unemployment	L3	-0.05*	(0.03)
East Kalimantan	diff_poverty	L2	-0.01**	(0.005)

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Source: Author's construction

4.2.3 IRF Results

The result of IRF in this section highlights the notable shocks affect the endogenous variable. Each subsequent $t = 0$ period represents the effect of initial shock over the next 8-years within 2002 – 2022. Throughout the analysis process, not all selected provinces show a significant IRF result on observed variables, both for socioeconomics and consumption (see Appendix 3). Therefore, the researcher decides to interpret the most substantial and statistically significant IRF outcomes only.

Firstly, North Sumatera sees a one standard deviation increase in the difference of export per capita of observed commodities to the EU, that is USD 14, leads to a statistically significant reduction in the change of Gini ratio by 0.004 immediately (see Figure 4). However, the trend reverses in year 3 ($t = 3$), increasing to 0.004-unit change. This suggests the export activities of observed commodities to the EU in North Sumatera positively impact in the short-run, yet to benefit the specific income groups which slightly increases the inequality over time.

Secondly, Riau sees mixed response where a one standard deviation increases in the difference of export per capita, amounting to USD 92, leads to an immediate statistically significant increase in poverty by 0.13 percentage point increase at $t = 0$. This may imply human resources shift towards the export-driven industries, leading to economic adjustment. Nevertheless, this dissipates quickly with no further increase recorded following the year of export-booming occurs. In parallel to this, the Gini ratio sees a reduction trend by 0.005-unit change at $t = 1$ in the same export change, indicating the delayed response of export-driven sectors' impact to the wider population income following the positive increase of poverty a year before (see Figure 5)

Thirdly, South Sumatera exhibits a sustained reduction in income inequality driven by the export per capita of the observed commodities to the EU. The province sees a one standard deviation increase in the differenced in exports per capita, which is about USD 5.1, leads to a statistically significant decrease in the change of Gini by 0.002 at $t = 1$ and $t = 2$ (see Figure 6). This suggests the export activities impact the change of income distribution equality over the short to medium term. However, the province sees a one standard deviation increase in the difference in export per GDP, approximately amounts to USD 24,614, is associated with a statistically significant decrease in the growth rate of GDP in consumption by USD 1.8 at $t = 1$. By $t = 2$, however, the growth rebounds by USD 2.1.

Figure 4 North Sumatera on Gini ratio

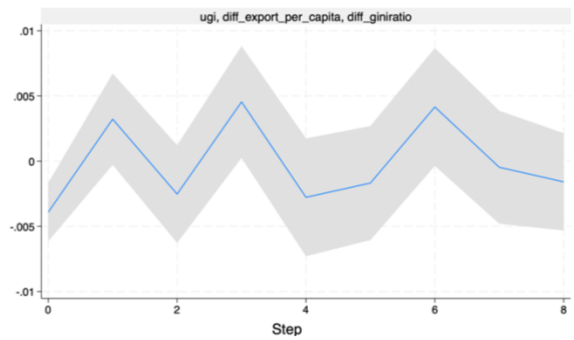


Figure 5 Riau on poverty

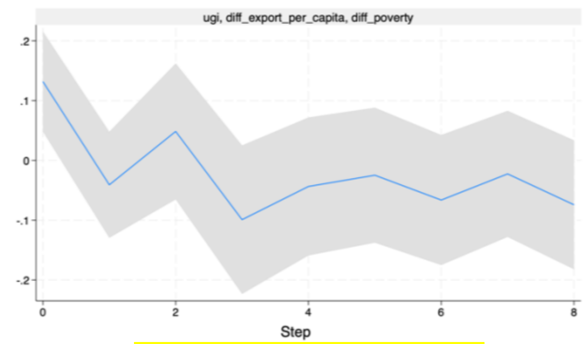


Figure 6 South Sumatera on Gini ratio

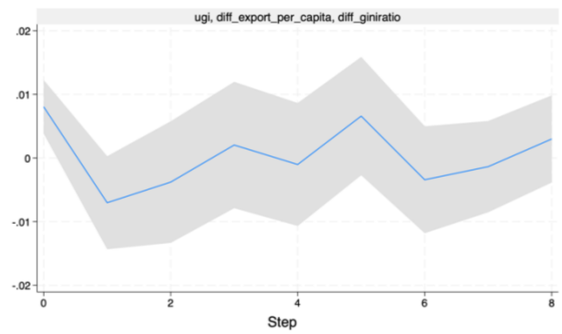


Figure 7 Jakarta on Poverty

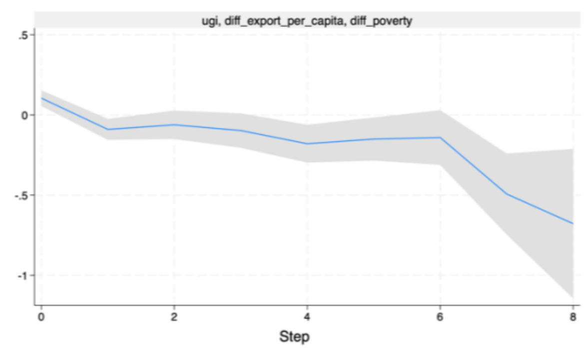


Figure 8 Jakarta on Unemployment

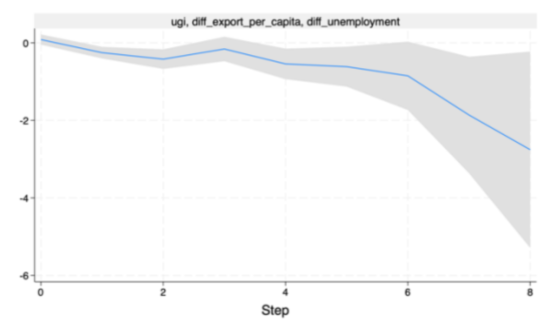
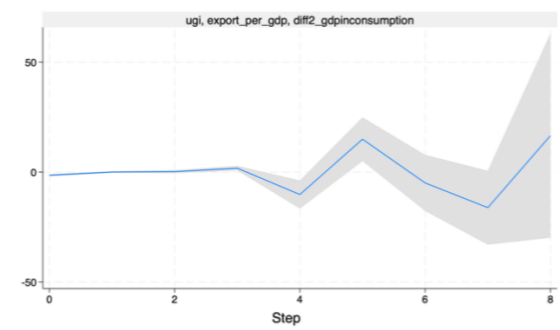


Figure 9 Central Java on Consumption



Graphs by irfname, impulse variable, and response variable

Source: Author's construction

Fifthly, Central Java sees a mixed trend (see Figure 8) where a one standard deviation increases of export per GDP of observed commodities to the EU, equivalent to USD 25,490, is associated to an immediate decrease in the growth rate of GDP in consumption by USD 1.4. Subsequently, the growth rate rises by USD 1.8 at $t = 3$, decreasing again at $t = 4$ by USD 10.2 before rebounding strongly with a USD 15 increase in growth rate at $t = 5$. These capture the acceleration as well as deceleration in consumption growth in Central Java changing over time driven by the export activities to the EU. On socioeconomic variables, the province sees a one standard deviation increase of the export per capita, which is USD 7.9, leads to a statistically significant of increase of the change of poverty rate at

$t = 1$ by 0.36 percentage point whereas the unemployment increasing by 0.26 and 0.21 change of percentage points at $t = 1$ and $t = 2$ respecively. On Gini ratio, the province sees that the decreases the change of Gini ratio at $t = 0$ by 0.004 points.

Chapter 5
Discussion on FTA Negotiations

5.1 Area of Contestation

5.1.1 Updates on Chapters within the Agreement Draft

The first phase of EU engagement with Indonesia started with the Partnership and Cooperation Agreement (PCA) signed in 2009 as a part of EU-ASEAN FTA pact. This agreement includes 50 articles agreed by the two parties, allowing the economic and political talks officially begins. In the same year, the EU-Indonesia Joint Vision Group[10] was established with its rule to provide strategic recommendation that suits both parties in terms of trade and investment. Following the failure of on region-to-region FTA negotiations with ASEAN, the group was tasked with recommending a shift to the EU and Indonesia government, business community, and academia to instead foster the FTA negotiation in bilateral basis. The group reported its recommendation and conclusion to the related stakeholders in 2011 and the PCA was subsequently in force in 2014. Following the updates, the EU initiated the first roundtable with Indonesia in 2016 in Brussels. In parallel to the negotiation coming along, the Union conducted the SIA with its ToR tabled in 2017.

In the first roundtable, according to the interviewees, the EU and Indonesia initially outlined 11 Chapters to discuss. These chapters represent the core principles of comprehensive economic partnerships globally. Despite none of the interviewees specified the exact chapters, and the agreement draft is still publicly unavailable, they can likely be inferred from those found in other FTAs agreement,[11] as follows:

1. Chapter I : General Provisions
2. Chapter II : Trade in goods
3. Chapter III : Trade in Service
4. Chapter IV : Investment
5. Chapter V : Protection of Intellectual Property
6. Chapter VI : Government Procurement
7. Chapter VII : Competition
8. Chapter VIII : Trade and Sustainable Development
9. Chapter IX : Cooperation and Capacity Building
10. Chapter X : Institutional Provisions
11. Chapter XI : Dispute Settlement
12. Chapter XI : Final Provisions

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[10] The group was consisted of government officials, business communities, and academic. On the EU side, it consisted of joint Directorate General of Trade, Agriculture, Health and Food Safety at European Commission, EU Delegation to Indonesia, European Business Chamber of Commerce, Business Europe, ING Group, Maersk, CEPS and College of Europe. On Indonesia side it was represented by Ministry of Trade, Ministry of Industry, Ministry of Fisheries, Investment Coordination Board, Ministry of Agriculture, National Chamber of Commerce, Employer's Association of Indonesia, Universitas Gadjah Mada, Universitas Indonesia, and Universitas Prasetya Mulya.

[11] Referred to EFTA – Indonesia FTA agreement. The researcher picks this as a comparation due to its similarities to those EU member states.

As the clock ticks, the number of chapters have been multiplying. According to the EU and Indonesian interviewees, it counts 21 chapters at the moment, doubled from the first it was being tabled. Each chapter primarily consists of derivative articles discussing the technical detail of the respective areas. As of the last roundtable in July 2024, it was only 11 out of 21 chapters that have been agreed upon by both parties. Meanwhile there has been no statements on this progress, confidential sources indicated that chapter on Government Procurement[12], Sanitary and Phytosanitary (SPS) Measures, Technical Barriers to Trade (TBT), and ROO have been resolved. This growing number of chapters could be traced back on factors related to economic, geopolitics, and domestic development realities. It is noteworthy that all of these chapters are initially within in the main chapters of the agreement draft, however, as the negotiation goes, both parties agreed to extract them separately. Apart from that, the core chapters of the agreement i.e., Trade in Goods, Trade in Service, Investment, Trade and Sustainable Development, State-owned Enterprises (SOEs), and Subsidy are not yet resolved.

5.1.2 Greater Liberalisation on Investment vs Protectionism

Mineral and Coal Mining Sector

Other issues brought to the table revolve around investment sector where the EU seeks for greater flexibility of foreign ownership vis-à-vis the restrictive regulations of Indonesian government (see Table 8 and 9). Indonesia's investment climate, specifically for foreigners, remains on the domestic-first preference, prioritising local control in strategic and people-oriented sectors as mandated by the Indonesia's constitution. In this demand, the bloc argues that this constitutes a barrier as they aim for wholly owned foreign ownership.

Some of the sectors affected include the mineral and coal mining activities[13] (See Table 9 point 4-6). In sum, foreign-owned entity on mineral and coal mining operating in Indonesia are obligated to divest share gradually starting from 5% in the first-5 year to 51% in the following 20-25 year—depends on the classification of the licensed-operating entity granted by the government. Through this underlying regulation, the bloc concerns on the ruling to establish material refining and processing facilities at home—the downstreaming—and raw material export restriction (see Table 9 Point 1)[14]. For the EU, according to the interviewees, this mining law is bias, therein bringing uncertainty and inconsistency for foreign investors. The researcher argues that this links to the earlier econometric analysis where Indonesia has been supplying the EU with raw material commodities. Through the FTA, the bloc aims to streamline bureaucracy by securing direct access to these resources.

Therefore, the bloc strongly opposes Indonesia's downstreaming and export restriction arguing that Indonesia is implementing protectionist measure on critical materials under which against the WTO's principle of fair trade, prohibiting to impose unnecessary export restrictions. Separately from the FTA

[12] It mainly rules the transparency in government procurement process such as clear access to the publication of laws, administrative rulings, and any international agreement affecting the procurement markets.

[13] Stipulated under Indonesia's Law No 3 of 2020 on Amendments of Law No.4 of 2009 on Mineral and Coal Mining which further detailed through Government Regulation No 96 of 2021 on the Implementation of Mineral and Coal Mining Activities

[14] The ruling Law No 3/2020 is an underlying regulation for Indonesia to implement export ban for each raw material. The country started with nickel ban which is regulated under the regulation of ministry of energy and mineral resources in the following year. Although it has been criticised by western countries, Chinese have invested millions of dollars to cooperate with local private-owned industries.

talks, the EU filed the lawsuit to the WTO in early 2021, and the WTO panel ruled against Indonesia in October 2022. In response, Indonesia filled an appeal against the WTO ruling during which the consultation period, Indonesia explains that its downstreaming policy is in accordance with the WTO rules and in that the country is seeking for value-added of its raw materials. This policy reflects Indonesia's goal to add value to its raw materials as the country has historically been a primarily raw-material exporter, often importing back its own commodities as finished goods from developed countries. The researcher argues that, if the EU were more willing to comply with Indonesia's downstreaming ruling by establishing a JV with local partners on nickel mining and processing, this case would not have escalated to an international dispute.

Beyond this contested area in mining sector, according to the EU interviewees, the bloc eyes Indonesia's renewable energy, high-tech, digital service, and green industry. For the bloc, Indonesia is a huge market which could be accelerate the capital flow of European in developing green industry. The EU is highly interested to invest and assist Indonesia to meet the sustainability and environmental standard to develop this new-promising sector through FTA. Having said that, however, the EU pushes Indonesia's legal certainty and regulatory transparency to be more open and have a clear-cut legislation process. It is due to the fact that the overnight-changing legislation with less public consultation which often happens in Indonesia have confused the European investors. In the interviews, the researcher was informed that the bloc is glad to be involved in hearing or public consultation prior to the legislation being updated, specifically on investment, licensing, and mining-related sector.

On Small-Medium Enterprises (SMEs)

In parallel to the mineral mining issue, the EU further pushes for greater liberalisation on Indonesia's requirement of minimum investment threshold for foreign business which amounts to IDR 10 billion (EUR 600 thousand). The measure[15] is on the same page over the subsequent EU's concern in which the ruling prohibits foreign SMEs to land investment in Indonesia. According to the EU interviewees, this investment restriction hampers European SMEs to enter Indonesian market, leading to hindering investment to ramp up middle-class economy. During the negotiation, Indonesian interviewees argue that there is a huge definition gap of SME between EU and Indonesia in terms of size of turnover (see Table 4.5).

The rationale for Indonesia not to open rooms for EU's SME investing and operating in Indonesia is because the classification of turnover and asset size between the two are extremely different. Indonesia in this position has a firm stance to protect its domestic SMEs over foreign investor to boost local players thereby skyrocketing the middle-class economy[16].

[15] Refers to Presidential Regulation No 10 of 2021 on Investment Business Activities
[16] Indonesia's Chamber of Commerce (2023) reported that SMEs contribute to 61% of national GDP in 2023.

Table 7 Definition of SME Categories by Annual Turnover Size of EU and Indonesia

Size	EU	Indonesia	Indonesia's IDR Equivalent in EUR[17]
Medium	≤ EUR 50 million	≤ IDR 2.5 billion – IDR 50 billion	≤ EUR 146,800 – EUR 2,900
Small	≤ EUR 10 million	≤ IDR 300 million – IDR 2.5 billion	≤EUR 17,600 – EUR 146,800
Micro	≤ EUR 2 million	≤ IDR 300 million	≤EUR 17,600

Source: Author's construction based on European Commission Recommendation of 6 May 2003 and Indonesia's Law No 20 of 2008

During the negotiation, issues on SMEs have lasted until it rolled up in the 5th rounds. The EU in this regard would follow Indonesia's investment ruling on SMEs, specifically exploring the definition of investment provisions, clarifying rules to set up business, and integrating investment protections element. To comply with Indonesia's rule-of-game, the EU has a proposal to conduct an 'innovative' approach amidst the investment protection. The talks on this were more explanatory for the EU to see a common ground. In return, according to the Indonesian interviewees, during which the negotiation taking place, the country seeks for EU's capacity building for Indonesian SMEs to comply with European market requirements. In this regard, the Indonesian government is pushing medium-sized enterprises to scale up aiming for export production (see Table 4.7). The researcher sees chapter on SME has been resolved with mutual satisfaction of both parties.

5.1.3 Environmental and Sustainability Certification Challenges on Palm Oil

Specifically speaking on Trade in Goods chapter, the EU sees sustainability and environmental standards are critical to ensure the products coming into the Europe are completely safe to the consumers, particularly the agriculture and fat products, while Indonesia views them as a potential NTB. From Indonesia's point of view, according to the interviewees, the country points its fingers to the EU at certain critical issues. Several key-driven factors are presumably believed unfair as the bloc imposes stringent environmental regulation for the topmost rationale. The EU has formalised European Green Deal which aims to make the continent first climate-neutral by 2050 whereby number of derivatives are signed.

This includes EUDR and CBAM, both of which are classified as NTBs[18]. According to the interviewees, the effect of CBAM is relatively low since Indonesia is not the main exporter of steel and electricity. However, there is a gap price between the carbon certificates regulated under CBAM and Indonesia's carbon tax. In this, the EU estimates the pricing on weekly basis calculated under European Trading System (ETS) which costs around EUR 85/tonne of $CO2_2e$ whilst Indonesia's is around USD 2 – 18/tonne of $CO2_2e$. The price gap is pretty far, causing the Indonesian exporters shall face higher CBAM tariffs afterwards.

From Indonesia's side, the traceability standards and certification are high cost for smallholder farmers where the EU is deemed discriminatory and protectionist. Indonesia puts a high concern since the

[17] EUR to IDR rate as of 29 October 2024

[18] As of this research remains underway, both EUDR and CBAM are not yet in place. EUDR will be effectively in effect on 1 January 2024 while CBAM is still on transition period until 2026.

geospatial data sourced from EU Observatory Global Forest[19] is regarded as a risk of low accuracy which could potentially lead to incorrectly identify non-deforested area as a deforested area. This is particularly relevant to Indonesia's certification on palm oil, known as Indonesian Sustainability Palm Oil (ISPO) which the EU has yet to recognise. This is because, ISPO certification holds different key areas with global-recognised Roundtable on Sustainable Palm Oil (RSPO) standard[20]. In this, United Nations Development Programme (2015) noted that 5 areas within ISPO are excluded in RSPO while other 8 areas on RSPO that are not explicitly related or not found in ISPO[21].

It is noteworthy that Indonesia has been trying to accommodate its interest for the EU to recognise ISPO certification through the FTA talks. This aims to navigate the implementation of EUDR which could potentially hamper Indonesia, the biggest palm oil producer in the world, boosting its palm oil exports to the EU. In this, according to the interviewees, it has raised tension during the negotiation. As of October 2024, the European Commission (2024) proposed to delay the implementation of EUDR to 30 December 2025 for large companies and 30 June 2026 for small and micro enterprises.

However, the researcher argues that there is a clear-cut distinction that impossibly steer the delayed deforestation ruling to speed up the FTA negotiations. This is because, the contested area within the EUDR clauses fall under the Paris Agreement which is an international treaty aiming to tackle climate change whilst FTA legally adheres the WTO's principles on trade. The regulatory framework governing the two are fundamentally different. Thus, it is highly unlikely for Indonesia to compromise on this regard to seek for EU's exemption for its ruling.

Table 8 List of contested sectors

Chapter	**EU's Concern**	**Indonesia's Concern**
Environmental and sustainability standards	Strict environmental regulations like EUDR (deforestation traceability) and CBAM	The traceability benchmark is costly for smallholders. Seeks acknowledgment of Indonesian certification and raises concerns about the accuracy of geospatial data.
SOEs and fair competition	Preferential treatment and subsidies for SOEs create unfair competition in sectors like energy and infrastructure.	Aims to protect SOEs, which are crucial for national development and strategic sectors.
Local content and standards	Views TKDN and SNI as NTBs, particularly in automotive and machinery	Deems these standards necessary for boosting local industry, ensuring technological transfer, and product standards
Investment	Demands transparent and predictable investment regulation	Acknowledges the need for transparency but prioritises national interest for sensitive sector
Foreign ownership	Advocates greater liberalisation in high-tech and service	Maintains a 'domestic-first' policy

[19] Provided by EU Joint Research Center (EJRC)
[20] RSPO certification is voluntarily but it is a mandatory once a company joins membership. Unlike RSPO, ISPO is strictly mandatory for Indonesian palm oil giant mills, yet voluntarily for smallholders.
[21] UNDP stressed that both standards set a different rule of game for the certification which could not be equally compared. For instance, the definition of Protected Areas and Biodiversity Conversion in ISPO differs with the concept of High Conservation Value (HCV) in RSPO. However, the two holds a legitimate standard for accessing, auditing, and certificating.

Labour standard	Call for adherence to ILO convention particularly on woman rights and child labour and seeks to establish joint institution to monitor this compliance	Argues that SMEs and economic competitiveness require flexibility

Source: Author's Construction

5.1.4 SOEs and Government-related Subsidy

As regards to the concerned chapters on Government Procurement and Competition, SOEs and subsidy has coloured the negotiation. The main issue revolves around the unfairness on level playing field for business as the SOEs receive preferential treatment by the government, raised by the EU. In this, crucial sectors include water, energy, infrastructure, transport, telecommunications, logistics and utilities are among the contested area during the negotiation. The European business, in this regard, sees the fairness on business competition between private entities and SOEs in Indonesia should be upheld. This is because, for the bloc, both issue pertaining SOE and subsidy is contra-productive from the goal of enlarging liberalisation practice which EU is promoting.

Indonesia, on the other hand, argues that SOEs are not solely for profit-driven goals but also serves as a national development strategy for public interest. The rationale is primarily to maintain national sovereignty over strategic assets including those that are not profitable economically but crucial for public interest in remote and underdeveloped area. Besides, the Indonesoa's SOEs mostly operate at sectors prioritising public service and to maintain economic resilience particularly in agriculture, energy, and transportation that are crucial for national long-term development agenda. Therefore, SOEs are deemed a semi-monopolistic which hampers market entry—particularly for the foreign investors, yet crucial for national security.

Within the SOEs discussion also, for the EU, the Indonesian government is seen overly involved through their subsidy-driven operations and financing. The EU argues that the subsidy provided to the SOEs has distorted the market. It allows the monopolistic environment gets more robust in strategic industry where the SOEs dominate particularly in the above-mentioned sectors. The bloc sees subsidy as a trade barrier whereby the transparency and reforms shall be taken to foster the same level of playing field for private entities either.

5.1.5 Indonesian 'Domestic-first' Policy

Local Content Requirement and Standardisation

Moving to another disputed chapter, according to the recommendation of vision group and SIA final report, the EU exercises to push far-reaching liberalisation to Indonesia in goods, service, and investment. The bloc seeks for an ambitious tariff-free for 95% of all tariff lines in goods and for service is asked to apply beyond the agreement upon WTO. Additionally, the EU concerns on Indonesia's tariff reduction in industrial sector which mainly on machinery, automobiles, and processed foods. On the other hand, Indonesia concerns on agriculture, textile, and footwear products.

The liberalisation is also being promoted in Trade in Service chapter of the agreement. The EU is aiming at Indonesia's financial services, logistics, and telecommunications. In this (see Table 9 Point

11), the European business concerns on Indonesia's local content requirement (TKDN)[22]. According to the interviewees, TKDN has been increasingly specific and more restrictive. The European giant businesses operating in Indonesia see TKDN as NTBs particularly for automotive and telecommunication where the components are mandated to rely more on local products whilst they may not meet the same standards as their international counterparts. During the fourth roundtable, the EU argued that the measure could distort competition and disallow European market access in Indonesia because, according to the interviewees, the materials that are subject to be 'Indonesian-made', particularly on the telecommunication and machinery, while in fact, the country still relies on imports.

In addition to TKDN, the Indonesian National Standard (SNI)[23] is also a part of certification and standards the foreigners shall comply. In the SIA report to be specific, the EU concerns that the certification is difficult and long-winded. Additionally, according to the EU interviewees, the new regulation has caused the certification process becomes time-consuming and more costly[24]. This is because, the Indonesian officials should undertake an inspection at the port of origin country of the product to collect sample which the travel cost is mandated to be covered by the exporting company. Subsequently, once the inspection is completed, the company should wait until it gets approved which this delay potentially leads to higher stock holdings.

After that, the laboratory testing must be conducted and in that the exporting countries presumably prefer to do it in the origin country, yet theoretically according to the regulation, the testing at the origin country only can be recognised by Indonesia if the two countries have a bilateral agreement. In practice, the in-force bilateral agreement between EU member states and Indonesia is extremely low. Thus, practically, the testing must be undertaken in Indonesia which the cost for shipment, complex customs, and fees for non-SNI certified is around IDR 60 – 120 million, equivalent to EUR 35,000 – 7,100. Finally, the tax from that imported sample must be SNI-labelled which is subject to another cost. It means that, each item needs to be physically handled twice, leading to more logistical cost for the exporting company. This process after all approximately takes two months to complete. Therefore, the bloc sees this certification is a financial burden for them

Subsequent to the certification, other Indonesia's 'domestic-first' regulations that raise concerns to the EU include the import restrictions and quotas[25]. Key-driven rationale is to prioritise domestic production over imports, thereby supporting local producers. In this regard, according to the EU interviewees, the bloc is confused on the restriction especially for the automotive[26] and high-tech industries in which the EU is taking part of supplying them to Indonesia. Besides these, all products for human consumption, animal products, plant and plant products, and alcoholic beverages from the EU producers have been encountering import barriers.

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[22] Local content requirement (*Tingkat Komponen Dalam Negeri/TKDN)* mandates a product to contain materials or values sourced from Indonesian-made. This aims to stimulate domestic market and promote technology transfer. It is legally in force under Regulation of the Minister of Industry No.16 of 2011.

[23] Indonesian National Standard (*Standard Nasional Indonesia*/SNI) covers 270 certifications across sectors. This certification serves as a national standard for products distributed all over the country. It roots to the similar regulation of TKDN.

[24] Refers to Regulation of the Minister of Industry No.45 of 2022

[25] The Indonesian government enacted the Regulation of Minister of Trade No. 36 of 2023 on Import Policies and Regulation along with other related policies which hinder the European products in Indonesian market access.

[26] The rationale behind this is plausible given the fact that Indonesia has yet to ratify the United Nations Economic Commission on Europe (UNECE) 1958 agreement which sets the international standard for automotive product.

The bloc argues that the Indonesian import restriction is practically unclear and not transparent, causing the made-in-EU products held at major ports. During the FTA negotiation, this import licensing, restrictions, and quotas have been a high-contested area in SPS chapter where the EU is pushing Indonesia for instead refer to international standards for import products including OIE[27], IPCC[28], and CODEX[29]. On top of these, the EU highlights these import restrictions have been frequently changing over time which they argue creates legal uncertainty.

Halal Law

Another significant compliance burden is on the Halal law which is seen overly protective and cost-consuming for foreign producers. Notably, Halal certification is also mandatory to comply in addition to Indonesian National Standard (SNI) for animal and plant-based food. The current law, as the researcher observes (see Table 9), holds more administrative processes to complete. The new-established government-led body, The Halal Product Assurance Organising Body (BPJH), holds an authority to manage the administration, to issue the Halal certificate, and to oversee the system for Halal-certified products. Meanwhile, the previous independent Halal certifier, Indonesian Ulama Council (MUI), remains involved in the certification process but is now responsible primarily for determining the Halal status through Halal trial and providing Islamic guidance on products as an alternative third-party advisor. In sum, BPJH handles administrative duties while MUI serves as an advisory Islamic institution.

Prior to this new law enacted, the Halal certification fell under the sole jurisdiction of MUI. This regulation update affects the prolonged time which, during the negotiation, the EU demanded Indonesia to harmonise the Halal law with international standard such as CODEX. In this, according to Indonesia source, its Halal certification has followed the CODEX, yet EU sees that there are many contradictive provisions on the ground.

For Indonesia, the regulation aims to ensure the Halal compliance for Indonesian consumers since the country Moslem-majority country in the globe[30]. During the negotiation, the Indonesian government argued that the Halal certification is essential for food, beverage, pharmaceutical, and cosmetic which are the main categories under this law. According to Indonesian interviewees, the Halal certification precisely offers EU-exported products to greater market access as Indonesian are unlikely to consume non-Halal-labelled products and that it does not fall under WTO principles. Therefore, for Indonesia, it is considered non-negotiable regulation in the discussion.

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[27] Office International des Epizooties (OIE) is a global certificate for controlling animal diseases.
[28] Intergovernmental Panel on Climate Change (IPCC) is not a certification rather than a body within the United Nations that promotes compliance and standards related to climate change mitigation and adaptation.
[29] The Codex Alimentarius (CODEX) is a standard refers Food and Agricultural Organisation (FAO). This certification on foods and agricultural products is widely recognised by WTO
[30] Government Regulation No. 39 of 2021 on the Implementation of Halal Product Insurance

Table 9 List of Indonesian Non-Trade Barrier Concerned by the EU

No	Regulation	Relevant section	Policy concern	Description	Impacts on EU business
1	Law No 3 of 2020 on Amendments of Law No.4 of 2009 on Mineral and Coal Mining	Article 103, 104, 170,	Raw material down-streaming	Requires holders of Mining Business License (IUP) and Special Mining Business License (IUPK) to process and refine the raw materials domestically	Potentially reduces trade volumes to the Europe with demand from automotive and manufacturing from Indonesia to the bloc
2	Regulation of the Minister of Energy and Mineral Resource No. 11 of 2019 on Second Amendment to the Regulation of Minister of Energy and Mineral Resource No. 25 of 2018 on Mineral and Coal Mining Concession	Article I Section 46 and Article II Section 62(A)	Nickel and bauxite raw material ban	Implements a ban on the export of nickel and bauxite raw materials, effective on 1 January 2020	EU has officially filed a lawsuit with the WTO arguing the ban violates the principles of the GAAT 1994 and WTO Agreement.
3	Law No 3 of 2020 on Amendments of Law No.4 of 2009 on Mineral and Coal Mining	Article 6, 112	Share divestment to local Indonesians	Mandatory for foreign-owned IUP and IUP to divest its share up to 51% either to state-owned or private entity	EU aims for greater foreign ownership on mineral and coal mining with no establishing joint-venture (JV) scheme with locals
4	Government Regulation No 96 of 2021 on the Implementation of Mineral and Coal Mining Activities	Article 147		Technical steps of divestment	
5	Law No 2 of 2017 on Construction Service	Article 32	Foreign ownership restriction	Foreign-owned construction service shall establish a JV with locals with the ownership shall less than 51%	1. Collectively reduce the opportunity of EU business by limiting ownership, increasing barriers, and operational restrictions. 2. JV and local content requirement reduce flexibility for foreign investment.
6	Presidential Regulation No 10 of 2021 on Investment Business Activities	Article 7		Foreign entity is restricted in operating medium-small scale business	

No	Regulation	Relevant section	Policy concern	Description	Impacts on EU business
7	Presidential Regulation No. 49 of 2021 on Investment Business Activities	Article 2		List of negative sectors (DNI) that are forbidden for foreign ownership	3. High capital threshold of investment leads to the medium-small investor from the EU challenging to enter the market
8	Presidential Regulation No 10 of 2021 on Investment Business Activities	Article 7		Foreign capital shall exceed IDR 10 billion on all sectors apart from Special Economic Zone on technology-based business	
9	Investment Coordination Board Regulation No 4 of 2021 on Procedures for Risk-based Business Licensing Services and Investment Facilities	Article 12			
10	Government Regulation No. 39 of 2021 on the Implementation of Halal Product Insurance	Article 5 Paragraph (d)	Halal certification	The Halal Product Assurance Organising Body (BPJH) is appointed to register the halal certificates for foreigner products	Cross-jurisdictional recognition by BPJH and MUI may lead to potential overlaps in the certification process
		Article 75 and 76		Indonesian Ulama Council (MUI) as a third-party advisor	
11	Regulation of the Minister of Industry No.16 of 2011	Article 3 & 4 Annex 6, 12, 13, 14	Local content requirements	Establishes rules for calculating the local content requirements	Complicates compliance where the local products (particularly on high-value added machinery, telecommunication and equipment) are neither feasible, nor widely produced
12	Regulation of the Minister of Industry No.45 of 2022	Article 67 point (2)	On-site country of origin for factory visit	It requires a mandatory physical inspection of foreign production facilities in their origin country for Indonesian-based foreign industry	1. Logistically challenging 2. Time-consuming which possibly delays the market entry

No	Regulation	Relevant section	Policy concern	Description	Impacts on EU business
13	Regulation of Minister of Trade No. 7 of 2024 on Import Policies and Regulation	Article 9 and Annex X on HS85 code	Import restrictions	Specific detailed requirement and license particularly for automotive products	1. Limits the market opportunities for EU exporters 2. Market access barrier leads to time-consuming to get the layered license and quota limitation
14	Regulation of Minister of Trade No. 36 of 2023 on Import Policies and Regulation **(Amended)**		Quota limitation	Certain goods including industrial sectors are subject to import quotas as determined by national needs.	

Source: Author's construction based on Indonesia's regulation and EU's Assessment

5.1.6 EU's demand on Human Rights

On TSD chapter, the EU emphasises the need of strong commitment to labour right. The bloc's main concerns include social protections such as living wages, reasonable working hours, and protections for child labour and women's rights. Issues surrounding minimum wages and working hours are particularly prominent as Indonesia has yet to ratify several International Labour Organisation (ILO)'s conventions and the EU is urging Indonesia to adhere the ILO's Decent Work Agenda.[31] The EU's concerns stem from Indonesia's lack of ratification of international labour standards which raises apprehension within the bloc.

The EU interviewees argue that labour standards—related to the human rights under the TSD chapter of the agreement—is a non-negotiable aspect in any FTA agreements with its trade partners. Should Indonesia fail to ratify the above-mentioned ILO standards in near future, the EU interviewees state that FTA negotiation could potentially face significant opposition from the European Parliament and EU member states. The negotiating team, which is consisted of the Directorate General of Trade of the EU Commission, is the 'executor' of the bloc's interest during the negotiation where the labour standards are paramount. The EU demands Indonesia to establish a baseline as an obligatory commitment since it also means ensuring fair treatment for Indonesian workers involved in processing export-oriented products for the EU market. Ensuring labour standards in Indonesia also means protecting the EU market from the risk of human right violation for the EU.

Furthermore, the EU particularly concerns on women and youth in Indonesia's labour mobility as these groups are prone to job firing due to their reliance on informal job. In this, the EU also highlights the child labour specifically in informal job setting, mainly in hazardous works such as unregulated tin mining sites, tobacco farming, and palm oil plantation. The EU has attempted to enforce this clause in the FTA agreement for Indonesia to adhere ILO Convention[32]. This reflects in the third roundtable on 11 – 15 September 2017 where the issue on human rights were discussed even specifically on child labour and unsafe working conditions.

In this regard, Indonesia argues that the job market in the country mostly relies on informal sectors, amounting to 59% of employed population (European Commission, 2020). While also commits to international standard, the government states that adopting ILO's strict standard too quickly will harm jobs market. They emphasise that the EU could not force one-size-fits-all approach which may politically lead to job loss. Specific sectors on this include agriculture, textiles, and footwear. Responding to this, the EU is committed to assist Indonesia to establish joint monitoring institution involving civil society, international organisation, and consultants. However, Indonesia has yet to respond to this proposal.

5.2 How Econometrics Shapes the Future of FTA Negotiations?

This study sees a mixed effect to the top-exporting commodity provinces to the EU in terms of socioeconomics and consumption growth. In this, the top-exported Indonesia's goods under HS

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[31] ILO's Social Security (Minimum) Convention 1952 (No. 102), the Minimum Wage Fixing Convention, 1970 (C131), the Hours of Work (Industry) Convention, 1919 (No. 1) and the Hours of Work (Commerce and Office) Convention, 1930 (No. 30)

[32] Specifically on the elimination of Child Labour No 138, Forced Labour No. 105, and discrimination in employment No 111

codes to the EU are predominantly limited to low-value materials rather than high-tech products. Prior to analyse the impacts, the researcher highlights the infrastructure gap across provinces noting that top-commodity producing provinces lack the capacity to export directly to the destination countries. Consequently, these goods are routed through Indonesia's main ports for global distribution, including to the EU. It could be observed from the data that provinces on the Java Islands—including Jakarta, Central Java, and East Java—report high export volumes of plantation commodities such as palm oil and its derivatives under HS15 Code, despite not being primary producers of these goods.

Despite the infrastructure gaps, accumulated benefits over the last two decades primarily concentrate in provinces across Java where poverty and inequality have decreased whilst the others experiencing rising inequality and fluctuating consumption trends. This exhibits Indonesia's reliance (particularly Java) on primary good exports, keeping the country economically tethered to the EU. Dependency theory, therefore, applies here, as reliance on non-industrialised goods limit Indonesia's capacity to leverage trade diversification, forcing the country to continue exporting without achieving widely distributed significant socioeconomic and consumption benefits.

This dependency pressures Indonesia to focus on raw material exports, hindering the country to adopt pro-industrialisation policies. This aligns with the EU's liberalisation preference for Indonesia to keep exporting raw materials and open foreign investment on these sectors. When Indonesia began implementing downstreaming policy, the bloc opposed this measure using its assertive power. Thus, given the limit benefits, this study suggests the EU-Indonesia FTA should be reviewed to instead ramp up not only raw-materials sectors but also promote widely distributed income quality across sectors for Indonesia. The option includes smoothening greater access for SMEs to export-oriented market—rather than centralising gains within certain groups as revealed by the quantitative findings.

Furthermore, the econometric analysis primarily indicates a minor positive effect of Indonesia's export activities of observed commodities to the EU on both socioeconomics and consumption growth. In this, this study argues that the bloc is not the topmost priority for Indonesian exports given the NTBs and high cost associated with the long-distance trade route. Therefore, the finalising step of FTA talks shall prioritise streamlining export process for both parties. Lastly, it also has to seek value-added products beyond raw materials or commodities. This highly potentially could be footwear, textile, electronics, processed foods, electronics which also includes lithium battery for electric vehicles. It will diversify Indonesia's export portfolio while securing crucial sector for EU market.

5.3 Power Hierarchy in Negotiations

The contested areas between two forces indicate a power hierarchy within the FTA negotiations. The EU's influence in setting firms such as greater investment liberalisation, environmental standards, and human rights depict the bloc's ambition to dictate Indonesia while the country is struggling to meet. Despite the EU claims they would not dismantle Indonesia's domestic regulation, yet during the negotiation, the bloc holds more negotiating capacity and records which drives Indonesia to face pressures. The bloc's well-resource negotiation teams, backed by regulatory bodies—including external consultants—and documentation, put Indonesia in a setting of responding rather than actively seeking terms. In the dependency theory, the peripheral economy often has limited negotiation power which in this case the offers always revolve to comply rather than collaborating where the two will gain mutual benefits.

In the context of this FTA, the researcher observes that Indonesia is often pressured to "bargain its existing regulations" in exchange for greater investment from the bloc—a trade-off that dependency theory identifies as characteristic of relationships between peripheral and central economies. Should Indonesia proceed by ratifying radical economic liberalisation, it risks being confined to a role reliant on raw material exports, limiting prospects for industrialised growth at home. In the case of downstreaming policy for instance, the EU should have followed Indonesia's rule by partnering with local entities in nickel mining, refining, and processing should the bloc eyes for the country's nickel value chain. This partnership would facilitate knowledge transfer, which in return creating a more balanced exchange. Such outcomes represent the kind of equitable terms that peripheral economies like Indonesia must strive for.

The researcher notes that while the standards proposed by the EU—such as stringent sustainability measures and adherence to ILO's principle—are highly regarded internationally as a foundational for government-to-government trade, Indonesia, as a developing economy is not yet economically equipped to meet those benchmarks. This compromise-compliance dilemma is in contrast with current Indonesia's economic capacity and developmental needs. In spite of aligning with the EU standard would provide Indonesia greater access to the EU market, the cost of compliance would pose a burden. In response to this, a potential common ground could be found by extensively pushing the Capacity Building Chapter within the FTA to provide targeted assistance to specifically support Indonesia's SMEs and civil society in advocating for decent wages and stable working hours.

Therefore, the researcher argues that the ratification of standards is not feasible for Indonesia in near foreseeable future. However, thanks to FTA talks with the EU, those demands serve as an external impetus for Indonesia to address its domestic problems, potentially guiding gradual improvement in regulatory and social standards. Beyond the negotiation, both parties on the off-record statement to the researcher acknowledge the value of mutual participation in regulatory hearings related to foreign business partnership. The EU representatives seek for participation in Indonesia's parliamentary hearings whilst Indonesia aspires to have a voice akin to that of a "28th member" within the EU. Their voices matter, fostering a sense of equal accountability, respecting each party's economic realities and ambitions.

Chapter 6
Conclusion and Recommendation

This study concludes as a novelty in the context of international trade between the EU and Indonesia on socioeconomic impacts towards the conclusion of FTA negotiation. This section will highlight the main findings, implication for policymaker, business, and stakeholders involved in the negotiation as well as suggestions for future research.

6.1 Main Findings

Prior to the start of the EU-Indonesia FTA negotiation, academic works from both parties examined the potential trend of trade and their socioeconomic implications. On EU side, the European Commission issued the SIA report which forecasts overall trade trend in detail until 2032, analysing the impact of both conservative and ambitious liberalisation scheme. Meanwhile, Indonesia through CSIS also issued a similar report, along with domestic policies which are subject to adjust to optimise FTA implementation. However, study examines time-series effects of Indonesia's export activities to the EU on socioeconomic conditions remain limited. This study fills that gap by analysing past trade trend to identify which sector should be prioritised in the FTA negotiations to maximise broad-based economic benefits. In parallel to this, this study explores the contestation of in-progress negotiating principles of the FTA draft. Using mixed-method approach that combines both quantitative through VAR with qualitative method—including interviews, policy analysis, document checking—this study stands out to holistically to analyse the problem.

This study argues that Indonesia's export activities with the EU over the last 20-years yield mixed socioeconomic impacts concentrated in Java. This underscores the peripheral provinces where they are home for top-listed commodities imported by the EU whilst lack direct export channel. This study argues that this impacts the unevenly distributed of benefits. In this, Indonesia is still reliant on its raw material and low-value commodity which only brings minimum impacts on social welfare. Therefore, this paper argues that FTA negotiation with the EU shall prioritise industrialisation collaboration to ramp up value-added to Indonesia.

The subsequent main finding includes the contested chapters in the negotiation are rooted on the different principle that EU and Indonesia uphold. While the EU advocates for ambitious liberalisation and regulatory alignment, Indonesia's approach remains more protectionist, with an emphasis on safeguarding domestic industries. This clash could be found during the negotiations on chapter of Trade in Goods, Trade in Service, and TSD where the power hierarchies between the two are identified. In this, demands to accelerate equipping with international standard for Indonesia is a double-edge sword, especially for SMEs. This paper further argues that it is a trade-offs Indonesia must navigate since the country is reliant on the informal sectors while aligning with globally recognised standards offer potential economic gains.

Lastly, this study argues that Indonesia's TKDN and SNI are NTBs which the EU should navigate. In return, this paper argues, Indonesia shall be more transparent on the process and improve its domestic value chain to support business environment for foreign entities.

6.1 Policy Implication

Given the roundtable of negotiation is still on-going at the working group level, this study is relevant for both EU and Indonesia stakeholders in wrapping up the talks. Some of which include:

a. With a limit positive impact of Indonesia's leading export commodities to the EU, it indicates that the bloc is not the top export destination. The trend is also found for the bloc, showing more imports activities from Indonesia rather than exporting for the last two decades. Therefore, FTA is hoped to accelerate trade activities between the two by prioritising sectors that are beneficial, the two are interdependent on, and crucial for future landscape such as green energy, digital service, and electric vehicles.

b. For the EU, this study argues that FTA should incorporate aggressive provisions for capacity-building support to assist Indonesia in meeting EU standard particularly SMEs and rural industries. Establishing sector-specific capacity-building mechanism within FTA could accelerate compliance for SMEs given the fact that most of which would be affected by the coming EU environmental policies. In parallel to the provision for smallholders, the bloc could play a significant role in driving Indonesia to meet basic human right and labour standard through the TSD chapter at the last working group discussion level. This study argues that it could start with establishing a joint institution consisting of both parties' stakeholders from governmental sector and civil society.

c. In return, this paper argues that Indonesia is advised to improve transparency in regulatory-making process to mitigate perceived biases and build investment confidence. Formalising the inclusion of foreign stakeholders in Indonesia's regulatory-making process, especially policies impacting FDI and industrial standards, would help foster a more predictable investment climate. Subsequently, this study argues that the two should prioritise mutual understanding of each other's domestic regulation aiming to identify best practice rather than contesting regulatory differences. FTA is perfectly a bridge to achieve this target.

d. Lastly, the need to harmonise streamlined licensing and standardisation procedure to avoid bureaucratic delay is required for Indonesia. This paper acknowledges while Indonesia's standardisation policy could not be flipped overnight, FTA may come as an external force to speed up the policy bottleneck.

6.2 Suggestion for further Research

This study has several limitations in certain parts which could be improved for future research. First, the selection of export commodity to the EU is narrowed to the top 5 only—due to budget constraints, indicating a low level of econometric examination which of resulting the low effect on the impacts. Therefore, including greater HS code is extremely suggested. Second, this study lacks balanced information from Indonesia's business representatives and parties frequently exporting to the EU and vice versa, given the limit timeframe for the interview process. Thus, future research is highly suggested to cover their information as well.

Appendix

Appendix 1. Stationarity Level (Dickey-Fuller Test)

Province	Poverty	Unemployment	Gini ratio	GDP in Consumption	Export per Capita	Export per GDP
North Sumatera	First-differenced			Second-differenced	First-differenced	
Riau	First-differenced					
South Sumatra	First-differenced					
Riau Islands	First-differenced					
Jakarta	First-differenced					
Central Java	First-differenced			Second-differenced	No differencing	
East Java	First-differenced					No differencing
East Kalimantan	First-differenced					

Appendix 2. Autocorrelation Found on Lagrange Multiplier Test

Province	Variable	Prob > chi2				
		Lag 1 p-value	Lag 2 p-value	Lag 3 p-value	Lag 4 p-value	Lag 5 p-value
North Sumatera	diff_poverty	0.022	0.007	0.174	n/a	n/a
	diff_giniratio	0	0	0	n/a	n/a
	diff_unemployment	0.077	0.005	0.081	n/a	n/a
Riau	diff_poverty	0	-	0.001	n/a	n/a
	diff_giniratio	0	0	0.004	n/a	n/a
	diff_unemployment	0.043	0	-	n/a	n/a
South Sumatera	diff_poverty	-	0.002	0.002	n/a	n/a
	diff_giniratio	0	0.027	0	n/a	n/a
Riau Islands	diff_poverty	0	0	0	n/a	n/a
	diff_giniratio	-	0.004	0.008	n/a	n/a
	Unemployment	0	-	-	n/a	n/a
Jakarta	diff_poverty	0	0	0	n/a	n/a
	diff_giniratio	0	0	0	n/a	n/a
	diff_unemployment	0	0	0	n/a	n/a
Central Java	diff_poverty	0	0.05	-	n/a	n/a
	diff_giniratio	0.01	0	0	n/a	n/a
	diff_unemployment	0	0	0	n/a	n/a
	diff2_gdpinconsumption	-	0	0	0	0
	diff_export_per_capita	0	0.023	0	n/a	n/a
East Java	diff_poverty	0	0	0	n/a	n/a
	diff_giniratio	0	0.082	0	n/a	n/a
East Kalimantan	diff_poverty	0	0	0	n/a	n/a
	diff_giniratio	-	0	-	n/a	n/a
	diff_unemployment	-	-	0.028	n/a	n/a

Appendix 3. Granger Test Result

Province	**Variable**	**Granger Test**
North Sumatera	diff_poverty	0.416
	diff_giniratio	0.755
	diff_unemployment	0.060
	diff2_gdpincons~n	0.632
Riau	diff_poverty	0.000
	diff_giniratio	0.001
	diff_unemployment	0.000
	diff_gdpincons~n	0.010
South Sumatera	diff_poverty	0.054
	diff_giniratio	0.033
	diff_unemployment	0.022
	diff_gdpincons~n	0.073
Riau Islands	diff_poverty	0.198
	diff_giniratio	0.069
	Unemployment	0.255
	diff_gdpincons~n	0
Jakarta	diff_poverty	0.001
	diff_giniratio	0
	diff_unemployment	0
	diff_gdpincons~n	0
Central Java	diff_poverty	0.228
	diff_giniratio	0.576
	diff_unemployment	0.305
	diff2_gdpincons~n	0
East Java	diff_poverty	0.677
	diff_giniratio	0
	diff_unemployment	0.039
	diff_gdpincons~n	0.003
East Kalimantan	diff_poverty	0
	diff_giniratio	0
	diff_unemployment	0
	diff_gdpinconsu~n	0.332

Appendix 4. Impulse Response Function of VAR Analysis

Type of Impact	Province	$t = 0$	$t = 1$	$t = 2$	$t = 3$	$t = 4$	$t = 5$	$t = 6$	$t = 7$	$t = 8$
Δdiff_giniratio	North Sumatera	-.004	-	-	.004	-	-	-	-	-
Δdiff2_gdpincon sumption		-1.9	-	-	-	-	-	-	-	-
Δdiff_poverty	Riau	.13	-	-	-	-	-	-	-	-
Δdiff_giniratio		-	-.005	-	-	-	-	-	-	-
Δdiff_giniratio	South Sumatera	.008	-	-	-	-	-	-	-	-
Δdiff_gdpincons umption			-1.8		2.1					
Δunemployment	Riau Islands	-.3	-	-	-	-	-	-	-	-
Δdiff_poverty	Jakarta	.1	-.1	-	-	-.18	-.15	-	-.5	-.7
Δunemployment		-	-.2	-.4	-	-.5	-.6	-	-1.9	-2.8
Δdiff_giniratio		-	-	1.5	-	-	-	-	-	-
Δdiff_poverty	Central Java	-	.36	-	-	-	-	-	-	-
Δdiff_unemploy ment		-	.26	.21	-	-	-	-	-	-
Δdiff_giniratio		-.004	-	-	-	-	-	-	-	-
Δdiff2_gdpincon sumption		-1.4	-	-	1.8	-10.2	15	-	-	-
Δdiff_poverty	East Java	.07	.12	-	-	-	-	-.21	-	-
diff_unemploym ent		-	-	-	-.13	-	-	-	-	-
Δdiff_poverty	East Kalimant an	-.15	-	-	-	-	-	-	-	-

Appendix 5. Example of Questions List

Strategic and diplomatic considerations

1. What specific obstacles are hindering consensus on export/import restrictions and investment conditions?
    a. What compromises is the EU prepared to consider resolving these issues within the remaining timeframe?
2. Given the unresolved critical issues such as export restrictions and investment conditions after 19 negotiation rounds, how confident is the EU that a final agreement can be reached before the end of the year?
3. How does the EU anticipate that potential administrative changes in Indonesia, such as a new administration, could affect the ongoing negotiations and the implementation of the CEPA?

Domestic issues

4. What are the EU's expectations regarding regulatory consistency and transparency in Indonesia, particularly in sectors prone to frequent regulatory changes or inconsistencies?
5. How does the EU view Indonesia's approach to reducing non-tariff barriers that currently impede European businesses?
    a. And what improvements does the EU hope to see in areas like import licensing and product standards?

Regulatory and compliance

6. How does the EU plan to address regulatory harmonisation challenges between the EU and Indonesia to ensure smoother trade flows and reduce compliance costs for businesses?
7. What specific non-tariff barriers does the EU anticipate could affect trade under the CEPA?
    a. How does the agreement address these barriers to facilitate better trade relations?

Environmental challenges

8. How does the EU plan to balance its commitment to high sustainability standards with Indonesia's emphasis on achieving economic growth within the Trade and Sustainable Development (TSD) chapter of the agreement?
9. What is the EU's approach to balancing its sustainability commitments under the EUDR and RED II with the need to avoid Indonesia's key exports to the EU, such as palm oil, while maintaining fair trade practices?

    [Continuously ask through following her answers]

10. What steps is the EU taking to collaborate with Indonesia on aligning sustainability standards, particularly in critical sectors like palm oil, timber, and fisheries, while ensuring that environmental commitments do not hinder trade relations between both parties?

Economic and trade implications

11. What specific provisions in the CEPA will enhance market access for EU products in Indonesia?
    a. How does the EU plan to address any potential trade imbalances that may arise?
12. What specific sectors or industries does the EU anticipate seeing increased investment and export in Indonesia as a result of the CEPA implementation?
13. How does the EU view the potential for Indonesia to become a regional trade hub in Southeast Asia as a result of the CEPA? What specific roles or markets does the EU anticipate Indonesia strengthening?

Labour standards [KEY ISSUE]

14. What immediate measures are being considered to address the identified discrepancies in labor standards between the EU and Indonesia, and how will these measures be implemented in the short term?

Capacity building

15. How does the EU foresee the CEPA affecting employment and skills development in Indonesia, and what initiatives are in place to support workforce adaptation to new trade and investment opportunities?
16. What specific capacity building or initiatives that will be prepared for Indonesia's industry particularly medium enterprises to catch up with EU's regulatory prior exporting their products to the EU?

Appendix 6. Ethical Clearance

Re: Thesis Consultation Line - Alif

Elissaios Papyrakis <papyrakis@iss.nl> Thursday, 23 May 2024 at 12.47

To: Muhammad Alif Muhammad Alif Alauddin

Dear Alif,
I just read your ethics application. You are not collecting any sensitive data, so I think what you already have suffices (and you can already upload it). Please share your consent form before you proceed with interviews (but this can happen at a later stage),
many thanks, Elissaios

Elissaios Papyrakis (Dr)
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e: papyrakis@iss.nl
Google Scholar: https://scholar.google.com/citations?user=Q-6P0xQAAAAJ&hl=en&oi=ao

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