



INDONESIA'S TWO-LEVEL GAME AT THE WTO: A POLITICAL
ECONOMY APPROACH TO THE INTERNATIONAL
POULTRY TRADE

BY

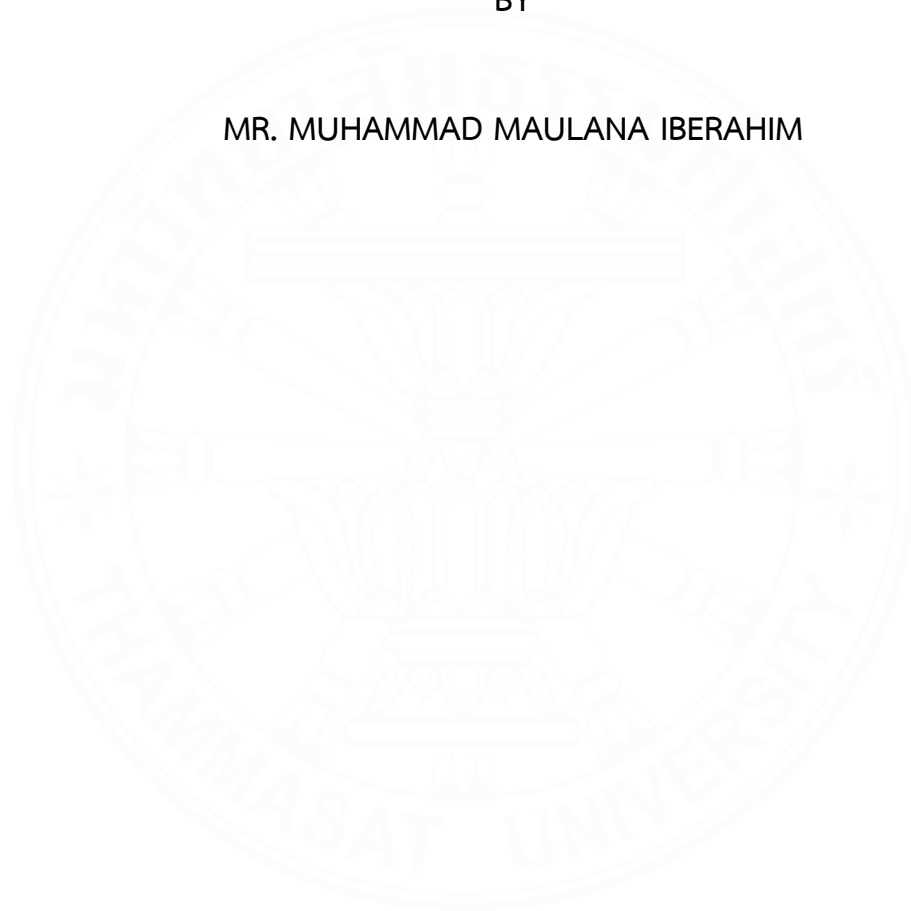
MR. MUHAMMAD MAULANA IBERAHIM

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF MASTER OF ARTS (ASIA PACIFIC STUDIES)
THAMMASAT INSTITUTE OF AREA STUDIES
THAMMASAT UNIVERSITY
ACADEMIC YEAR 2020
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ENTITLED

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was approved as partial fulfilment of the requirement for
the degree of Master of Arts (Asia-Pacific Studies).

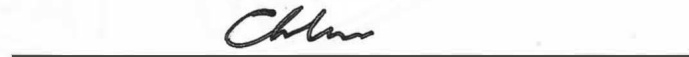
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ABSTRACT

This thesis scrutinizes the trade dispute between Indonesia and Brazil over the importation of chicken – which was adjudicated by the WTO, favoring Brazil at the expense of Indonesia – through a political economy lens. The economic philosophy of self-sufficiency, which prioritizes domestic production at the expense of foreign interest, has colored the dynamics of protectionism and Indonesia’s political economy as manifested in various legal instruments, thereby accentuating regulatory protectionism. This thesis thus addresses a research question, which inquires the role and the extent of domestic actors in exerting influence on the Indonesian government’s decision-making process.

While international trade dispute literature has an overemphasis on state-centric analysis, this thesis adopts the two-level game theory to analyze the nexus between international and domestic pressures. It problematizes the negotiation process as a win-set in which the government’s hand is tied with two-directional forces. Combining economic nationalism into the theoretical framework, this thesis argues that the domestic actors’ role at the grass-root level has integral structural ascendancy in dictating the state’s behavior in the global trade regime. Moreover, the framework of nationalism goes beyond neoliberal globalism and the Marxist tradition of class struggle.

The significance of this thesis shows how the business interest associations (BIAs) and the trade unions (TUs) have had centrifugal and centripetal forces. The BIAs who represent vertically integrated poultry firms (integrators) have more political options, whereby their structural and instrumental powers have the more latent capacity to influence the decision-making process (e.g., intensive lobbying). On the other hand, the TUs have limited political options because their structural and instrumental powers have fewer resources, making the TUs appealed to nationalist populism. The latter's strategy is more confrontational (e.g., demonstration instead of lobbying) than the former, who are the direct beneficiaries of legal-rational patrimonialism. Therefore, the asymmetric relations among the two also fuel the conflict of interests and domestic cleavage.

At the international level, the WTO has the legal capacity to enforce its ruling. The fact that the implementation of the agreement on agriculture among the global South is contentious, Brazil as a global swing state and the largest agribusiness power, has utilized the corporate food regime to gain market access. Indonesia, however, is careful in formulating its negotiation strategy as non-compliance act would result in bad precedent due to available retaliation process that can be undertaken by Brazil. Therefore, this demonstrates Indonesia's responses toward late capitalism and its ambivalence toward liberalization and protectionism. However, Indonesia will continue to defend its interest in the global trade regime and will likely perpetuate embedded liberalism under the cloak of nationalist motives.

Keywords: two-level game, business interest, self-sufficiency, economic nationalism, WTO

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“et la patrie et l’humanité”

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TABLE OF CONTENTS

	Page
ABSTRACT	(1)
ACKNOWLEDGMENTS	(3)
LIST OF TABLES	(8)
LIST OF FIGURES	(9)
LIST OF ABBREVIATIONS	(10)
CHAPTER 1 INTRODUCTION	1
1.1 Introduction and Statement of the Problem	1
1.2 Research Question	6
1.3 Research Objectives	7
1.4 Thesis Statement	7
1.5 Scope and Limitations	8
1.6 Significance of the Study	9
1.7 Structure of the Thesis	11
CHAPTER 2 REVIEW OF RELATED LITERATURE AND STUDIES	13
2.1 Two-level Game Theory	13
2.1.1 Two-level Game of the WTO	21
2.1.2 WTO Dispute Settlement: The Tension between Global Trade Regime and Domestic Politics	26
2.2 Economic Nationalism and Politico-Business Relations in Indonesia	28
2.2.1 Economic Nationalism under Sukarno	30

	(5)
2.2.2 Economic Nationalism under Suharto	32
2.2.3 Economic Nationalism under Yudhoyono	37
2.2.4 Economic Nationalism under Jokowi	42
 CHAPTER 3 RESEARCH METHODOLOGY AND CONCEPTUAL FRAMEWORK	 48
3.1 Conceptual Framework	48
3.2 Research Design	52
3.3 Sample and Setting of Study	53
3.4 Data Collection and Instruments	54
3.5 Data Presentation and Analysis Plan	54
3.6 Ethical Consideration	55
 CHAPTER 4 INDONESIAN POULTRY: FROM THE INTERNATIONAL TO THE DOMESTIC LEVEL	 56
4.1 Political Economy of Agricultural Trade	56
4.1.1 Indonesia and the WTO	57
4.1.2 Food Self-sufficiency vs. Food Security	61
4.1.3 Legal Instruments to Achieve Self-sufficiency	64
4.2 Indonesia's Legal Instrument Challenged by Brazil through the WTO Dispute Settlement	69
4.2.1 Positive List Requirements: The Absence of Chicken Products in the Document	73
4.2.2 Intended Use Requirement: Discriminatory Measure	75
4.2.3 Perplexed Import License: Limited Application Windows and Fixed License Terms	76
4.2.4 Undue Delay in Health Certificate Approval	78
4.2.5 Halal Labeling: Public Health Concern	79
4.2.6 Direct Transport Requirement	81
4.2.7 General Prohibition	82

	(6)
4.3 Legal-Economic Rationale of DS484	85
4.4 The Dynamics of the Indonesian Poultry Industry: Market Structure and Actors	88
4.4.1 Market Structure	89
4.4.2 Actors in the Indonesian Poultry Industry	93
4.4.3 Political Economy of Indonesia's Poultry Industry	97
4.4.4 Regulatory Capitalism and Protectionism in the Poultry Industry	102
 CHAPTER 5 THE TENSION BETWEEN ECONOMIC NATIONALISM AND THE WTO AGREEMENT IN ATTAINING SELF-SUFFICIENCY	 104
5.1 Jokowi's Economic Nationalism Manifestation of Food Sovereignty	106
5.1.1 Imagined Nationalism: Revisiting the Historical Legacy	110
5.1.2 Material Nationalism: Populism and Distributional Politics	111
5.2 The Struggle of State Apparatus in Food Self-sufficiency	112
5.2.1 The Ministry of Agriculture	115
5.2.2 The Ministry of Trade	117
5.3 Achieving Economic Nationalism and Self-sufficiency from Bottom	119
5.4 WTO and Indonesia's Two-level Negotiation	125
5.5 Janus-faced Burden	127
5.6 Contending Perspective of Agriculture Liberalization: Sitting on the Fence	133
5.7 Agricultural Trade in the WTO System: Critique and What's Next?	135
5.7.1 Non-trade Concerns and the Doha Round	136
5.7.2 Institutionalizing Unfairness through the AoA	137
5.7.3 Food Self-sufficiency under the WTO Framework	141
5.8 The Aftermath of the Dispute	143
 CHAPTER 6 CONCLUSION	 146
 REFERENCES	 153

	(7)
APPENDIX	168
BIOGRAPHY	170



LIST OF TABLES

Tables	Page
2.1 Rational Choice in Economic, Politics, and Political Economy	17
4.1 Dispute Cases Involving Indonesia	60
4.2 Indonesian Food Law and Self-sufficiency	66
4.3 Indonesian Trade Law and Economic Sovereignty	68
4.4 Indonesia's Legal Instruments Disputed in the DS484	70
4.5 The WTO Agreements, as cited in the DS484	71
4.6 Indonesia's Non-tariff Measures on Chicken Imports	87
4.7 Broiler Chicken DOC Supply and Demand, and Poultry Feed Production	90
4.8 Number of Head Slaughtered by Indonesia's Top 6 Poultry Firms in 2015	94
5.1 Strategic Plan of the Ministry of Agriculture Republic of Indonesia 2015-2019	116



LIST OF FIGURES

Figures	Page
2.1 Illustration of Win-set Size	18
2.2 Political Indifference Curve in Two-level game	20
3.1 Indonesia's Two-level Game: A Dilemma between International Compliance and Economic Nationalism	51
4.1 Breakdown of Indonesian economy's total exports and imports, % (2017)	58
4.2 Indonesia's Import Licensing Regime	72
4.3 Indonesia's Chicken Meat Import and Export Balance 1996-2017	87
4.4 Meat Consumption Per Capita Per Year (2010-2017) in kg	89
4.5 Commercial Broiler and Layer Sectors Value Chain	92
4.6 Feed and DOC Production Shares in Indonesia	94
5.1 Political-Business Relations in the Poultry Industry	123
5.2 Binding Overhang Principle	139

LIST OF ABBREVIATIONS

Symbols/Abbreviations	Terms
ACFTA	ASEAN-China Free Trade Agreement
AFC	Asian Financial Crisis
AoA	Agreement on Agriculture
APEC	Asia-Pacific Economic Cooperation
API	Import Identity Number (<i>Angka Pengenal Importir</i>)
Bapokting	Primary Essential Commodities (<i>Barang Pokok Penting</i>)
BIN	State Intelligence Agency (<i>Badan Intelijen Negara</i>)
BPS	Indonesian National Statistic Agency (<i>Badan Pusat Statistik</i>)
BULOG	Bureau of Logistics (<i>Badan Usaha Logistik</i>)
CAP	Common Agricultural Policy
CP	Charoen Pokhpand
DirJen	Directorate-General (<i>Direktorat Jenderal</i>)
DoC	Day-old Chicken
DPR	The House of Representative of Indonesia (<i>Dewan Perwakilan Rakyat</i>)
DSB	Dispute Settlement Body
EU	European Union
FAIR	Federal Agricultural Improvement and Reform
GATT	General Agreement on Tariff and Trade
Gerindra	Great Indonesian Movement Party (<i>Partai Gerakan Indonesia Raya</i>)
GFC	Global Financial Crisis
Golkar	Functional Group Party (<i>Partai Golongan Karya</i>)
GOPAN	Association of the National Chicken Farmer Organizations (<i>Gabungan Organisasi Peternak Ayam Nasional</i>)

Symbols/Abbreviations	Terms
GPMT	Indonesian Feed Producers Association (<i>Gabungan Perusahaan Makanan Ternak</i>)
GPPU	Poultry Breeder Companies Association (<i>Gabungan Pengusaha Pembibitan Unggas</i>)
INSP	Pre-shipment Inspection
IPE	International Political Economy
IPS	Intellectual Property Rights
IRSA	Indonesian Research and Strategic Analysis
KADIN	Indonesian Chamber of Commerce (<i>Kamar Dagang dan Industri Indonesia</i>)
KKN	Corruption, Collusion, and Nepotism (<i>Korupsi, Kolusi, dan Nepotisme</i>)
KPPU	Business Competition Supervisory Commission (<i>Komisi Pengawas Persaingan Usaha</i>)
<i>Malari</i>	January Disaster (<i>Malapetaka Januari</i>)
MFN	Most-favored Nation
MoA	Ministry of Agriculture
MoT	Ministry of Trade
MP3EI	Master Plan for the Acceleration and Expansion of Indonesia (<i>Master Plan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia</i>)
NTM	Non-tariff Measure
OECD	Organization for Economic Co-operation and Development
PATAKA	Center for Food Agriculture and Advocacy Study (<i>Pusat Kajian Pertanian Pangan dan Advokasi</i>)
PDIP	Indonesian Democratic Party of Struggle (<i>Partai Demokrasi Indonesia Perjuangan</i>)
PDN	Domestic Trade (<i>Perdagangan Dalam Negeri</i>)

Symbols/Abbreviations	Terms
PINSAR	Indonesian Poultry Farmers Association <i>(Perhimpunan Perunggasan Rakyat Indonesia)</i>
PKH	Livestock and Animal Health <i>(Peternakan dan Kesehatan Hewan)</i>
PKS	Prosperous Justice Party <i>(Partai Keadilan Sejahtera)</i>
Pusdatin	Center for Data and Information System <i>(Pusat Data dan Informasi)</i>
QC	Quality Control
RASKIN	Rice for Poor Households <i>(Beras Rumah Tangga Miskin)</i>
Repelita	Five-year Development Plan <i>(Rencana Pembangunan Lima Tahun)</i>
RPJMN	National Short-term Development Plan <i>(Rencana Pembangunan Jangka Menengah Nasional)</i>
RPJPN	National Long-term Development Plan <i>(Rencana Pembangunan Jangka Panjang Nasional)</i>
SOE	State-owned Enterprises
SPS	Sanitary and Phytosanitary (SPS)
TBT	Technical Barriers to Trade
TPRB	Trade Policy Review Body
TPRM	Trade Policy Review Mechanism
TRQ	Tarif-Rate Quota
US	United States
USDA FAS	United States Department of Agriculture Foreign Agricultural Service
WB	World Bank
WTI	World Trade Institute
WTO	World Trade Organization

CHAPTER 1

INTRODUCTION

1.1 Introduction and Statement of the Problem

The Uruguay Round in 1994 has brought a renewed hope for the continuity of international trade under a standardized international trading system. After six decades of negotiation, the World Trade Organization (WTO) has institutionalized the General Agreement on Tariff and Trade (GATT), which administers international trade under certain principles and rules. Subsequently, the WTO manages trade flows with the functioning as a negotiation forum and dispute settlement mechanism under the trade liberalization agenda.

However, trade liberalization is a complex process. In liberalizing trade, the WTO functions as a negotiation forum that assembles parties to deepen their trade concession. The role of the WTO thus makes it essential to be the center of multilateral trade interactions. In capturing how difficult the process of trade liberalization, The World Trade Institute (WTI) analyzes that the WTO lacks progress due to multifactorial accounts. It shows that member parties were reluctant to be committedly progressive to remove the trade barriers, which were predominantly caused by domestic political structures that hinder further economic integration (Elsig, Eckhardt, & Iliuteanu, 2013).

Even though the multilateral trade has been institutionalized alongside its dispute settlement system, member countries have been, if at all, unwilling to commit to liberalizing their trade. Elsig et al. (2013) suggest that it is provenly challenging to enforcing the WTO's 'one-size-fits-all norms,' given the varying degree of domestic regulations that affect international trade. Hence, trade liberalization requires both domestic and international supports. They further argue that there are entangled circumstances in which the WTO legalization has resulted in unintended consequences toward domestic dynamics, where the domestic interest groups became vigilant. This suggests that there is tension between international and domestic interests within the trade liberalization agenda.

Therefore, the nature of conflictual interest between domestic constituent and international, which is portrayed as 'elite,' has always been consequential to the making of the trade dispute. Of all recorded cases in the WTO, the Dispute Settlement Body (DSB) could only issue 350 rulings out of almost 600 disputes (WTO, 2016). Many critical arguments contend that the global market uncertainty followed by the ambiguity of the WTO rules has fueled countries to pursue protectionist and trade-restrictive policies (Cohee, 2008). On the other hand, scholars such as Davey (2005) and Matsushita, Schoenbaum, and Mavroidis (2006) argue that the WTO has virtually succeeded by handling the international trade negotiations over tariff reduction and removal of non-tariff barriers through the dispute settlement mechanism.

In complying with the WTO rulings, governments encountered various degrees of domestic difficulties. Cohee (2008) notes that domestic political acceptance is essential to internalizing global trade regimes. While it is not limited to developing and least-developed countries that were granted special and differential treatments to adjust with the rule of the game, developed economies also faced difficulties in abiding by their commitment to the WTO. Hawkes and Plahe (2013) then argue that the global trade regime's underlying structure allows developing countries to continue the autarky trend and self-sufficiency goal, which results in protectionist policies and disruption in trade flows. The detrimental effect of protectionist policies on multilateral trade arrangements and the failure of the Doha Round followed by the increased number of trade disputes were criticized by many (See Grinols & Perelli, 2006; Ragosta, Joneja, & Zeldovich, 2003).

While a growing body of literature regarding the linkage of WTO and domestic political economy at the institutional paradigm has gained much attention, the attempts to scrutinize empirical research on the dynamics between the WTO rulings and a country's domestic political economy analysis have been limited. For example, Donglin (2005) and Yee (2004) have extensively addressed China's domestic politics to the WTO negotiations. Hertog (2008), on the other hand, has put forward Saudi Arabia's domestic condition in conforming to the WTO accession. In a more recent analysis, Hawkes and Plahe (2013) argue that the Agreement on

Agriculture (AoA) has had adverse implications toward the global south and developing countries' right to pursue food self-sufficiency.

Political-economic salience on the issue of agricultural liberalization in recent decades has drawn a wide range of attention. The Global Financial Crisis (GFC) has marked a further polarization between neoliberalism and protectionism. Late capitalism¹ that causes inequality and disruption in the global south's food supply chain (Braun, 2008), including Indonesia, has induced the rise of new nationalism and consolidated left- and right-wing movements to oppose the free market (Sibuea, 2016). Therefore, these nationalist movements pose a threat to the continuance of the global liberal trade order advocated by the WTO.

Indonesia, as one of many developing countries, has been an interesting country to be academically analyzed, given the political economy dynamics of self-sufficiency in the agricultural sector has ascended. The patron-client relationship between the state and the business has underlain this systematic study. Although many scholarly works done by most prominent political economy scholars such as Chalmers and Hadiz (2005), Helleiner and Pickel (2005), and Narlikar (2003) have elucidated the politics of economic development in East and Southeast Asian countries, the recent political economy analysis of the linkage between the politics WTO and domestic structure has received less attention. However, the book *The Rise of Capital* by Robinson (1986) has a special place in the Southeast Asia political economy scholarship (Vedi R. Hadiz, 2013). Robinson's work on political economy scholarship has been seminal to the domestic structural transformation given the increasing capitalist development during that era. One excerpt from Hadiz on Robinson's work points out the necessity of Indonesian cases as theoretical debates and empirical assessment. Hence, Indonesia has been a great intellectual exercise for

¹ The definition of late capitalism (or late stage of capitalism) has been evolving and contested. It is not an epoch-defining discovery. Rather, the term has been used to depict the situation in which the mode of production has been developed in the post war history. It is critically examined by Mandel (1998) through the Marxist lens which exposes the flaws of the law of capital.

political economy scholarship. Despite the growing literature on the discipline, the Indonesian political economy discourse that associates the dynamics of WTO and domestic politics was insignificant.

In Indonesia's economic development, since the beginning of Sukarno's regime up until the current affairs, the political economy perspective has always been attentively useful to explain why some sectors are more liberalized than others. The interaction between domestic actors also shall be noted, given that many economic policies were not entirely rationalized – some are also politically-driven. The political economy scholarship on Indonesia was widely depicted as corrupt and full of rent-seekers within state apparatus and politically-linked business, as well as phenomena in which businesses seek favoritism from the government (Eklöf, 2002; Gomez, 2002). It is widely known that these businesses, whose political patronage is given by politico-bureaucrats, have been referred to as 'cronyism.'

Although Indonesia has been democratized after the fall of Suharto, *reformasi* has not indeed entirely removed the culture of corruption, nepotism, and collusion (Faisal, 2013) or dislodged clientelism and patronage in the current Indonesian political dynamics. Democratization has only enabled a greater space for business interests with varying actors to systematically and structurally be involved in an institutionalized way. However, protectionism requested by close-nexus between government-business relations, both business interest and union, has led to a trade dispute in which foreign actors challenge it to the WTO dispute settlement. There is a broad agreement on the linkage between international and domestic politics that is argued by Cohee (2008), which views the global trade regime as a threat to internal political acceptance due to its compliance mechanism. Thus, the global trade regime's underlying structure allows developing countries to undertake autarkic goals in achieving food self-sufficiency in the framework of the *right to food* (Hawkes & Plahe, 2013). In the context of agrarian reform from the global south perspective, the Indonesian government's interference remains visible through the implementation of legal instruments to favor domestic consumers and producers. Despite its good intention, such protectionist measures have resulted in trade disputes vis-à-vis other countries, which challenged Indonesia's measures through the WTO's legal mechanism.

The fact that other countries have fiercely challenged Indonesia's agricultural protectionist policies draws a necessity in the contemporary agricultural political economy scholarship. While much literature has discussed state-business politics, political economy in agriculture, very few that addresses Indonesia's legal dispute in the WTO regarding agricultural issues. For example, Ahn and Gnutzmann-Mkrtchyan (2019) study Indonesia's import licensing regimes concerning agricultural trade, whereas Rigod and Tovar (2019) specifically examine the trade dispute that occurred between Indonesia and Brazil in regard to chicken importation. Both studies have acknowledged that self-sufficiency is the government's ultimate goal. There is an extensive understanding that an import-licensing regime is only a means of protectionism to achieve self-sufficiency. Similarly, Rumokoy (2020) has examined Indonesia's agricultural trade law through an international law perspective in which the global trade regime under the WTO laws has been able to put pressure on its member states to comply with the existing regulations.

However, the aforementioned studies have been very limited to the legal-economic approach, overlooking the dynamics of political economy. Although Rigod and Tovar acknowledge political-economic motives found behind the self-sufficiency objective, they are unable to illuminate the socio-historical background that constitutes Indonesia's economic nationalism. However, state-centric analysis within the positivist paradigm has a limitation, overlooking the analysis outside the institutional boundary. This insufficiency leads to empirical blind spots that cross the debate of *laissez-faire a la* Austrian school vis-à-vis mercantilist 'beggar thy neighbor' and Friedrich List's national political economy. On the other hand, Hamilton-Hart (2019) argues that Indonesia's self-sufficiency is a general illiberal turn based on the political-economic analysis. Yet, it has not systemically linked the dynamics between domestic political economy and the WTO dispute settlement.

Therefore, this thesis will focus on the trade dispute concerning the agricultural issue between Indonesia and Brazil over the chicken import restriction to scrutinize the dynamics of the Indonesian political economy that appraise the linkage between domestic political economy and the WTO, where one level will influence the other. Moreover, there is also a growing concern about Indonesia's protectionist

policies in agricultural trade, both tariff, and non-tariff measures. In this regard, domestic interest groups should be examined. Political-business relations, as argued by Gomez (2002), have a pervasive impact on the central government's decision-making process. According to OECD's review on agriculture policies in Indonesia (2012), farmers have been active in lobbying the government as the support derived from public and political parties for the agricultural sector remains sturdy. This justifies the government's interventionist and protectionist measures due to these complex political-business relations.

The government-led program in realizing food self-sufficiency, Hamilton-Hart (2019) argues, has received extensive criticism as it is a protectionist rent-generating goal 'operating under the cloak of nationalism.' Although economic nationalism is perceived as a threat to globalism and neoliberal agenda, Indonesia is still confident in undertaking nationalist justification for its trade policy – which consequently resulted in non-compliance act under global trade regime and WTO trade law. Therefore, this thesis aims at filling the empirical blind spots in Indonesian political economy literature that require a comprehensive socio-historical analysis, particularly how have different varieties of actors influenced the government's decision-making process? under what condition could economic nationalism justify protectionist policies? How will it affect the global trade negotiation under the WTO agreement? Although this study is industry-specific, it is an indispensable prerequisite to examine the patron-client relationship by unpacking the structure of the market, which will generate a general proposition in the Indonesian political economy.

1.2 Research Question

In what ways, and to what extent does the role of domestic actors influence the Indonesian government's decision-making process in determining trade policy in the poultry sector and its implication to international compliance under the WTO regulations?

1.3 Research Objectives

I. Shed light on the factors that hinder Indonesia's trade liberalization, particularly in the poultry industry, by drawing attention to the landscape of international trade relations and domestic political economy.

II. Postulate a structured explanation with a well-defined conceptual framework to investigate the state's bargaining position in international trade and domestic politics.

1.4 Thesis Statement

This thesis hypothesizes that the trade-restrictive measures such as import license and other non-tariff measures imposed by the Indonesian government in the poultry sector, particularly for chicken meats and chicken products, have caused inconsistencies and violations with the WTO law and were instigated due to non-economic motives; hence it involves political reasoning as well. Although Brazil seriously challenged Indonesia through the WTO DSB, the Indonesian government seemed reluctant to fully comply with the adopted Panel report considering its delay to adjust the trade policy for two years. As a result, Brazil filed another complaint, and Indonesia consequently has lost the lawsuit two times. This is because Indonesia is adopting economic nationalism, which justifies series of protectionist trade policies, favoring domestic industries in the name of national interest. However, Indonesia was also facing two-directional negotiations and pressures from the international and domestic levels. On the one hand, Indonesia had to deal with the government-business relationship. On the other hand, Indonesia had to take into account its obligation to commit to the WTO laws.

1.5 Scope and Limitations

This thesis focuses on the case study of “Indonesia-Measures Concerning the Importation of Chicken Meat and Chicken Products” or DS484 as in the WTO official case tag. The scope of the research is started when Brazil attempted to enter the Indonesian poultry market in 2009, specifically the market of chicken meats and products. Although Brazil has undertaken the utmost effort to gain market access, Indonesia still effectively prohibited the import by issuing trade-restrictive measures against Brazil.

As a result, after five years, Brazil officially requested consultation in the WTO to file complaints against Indonesia on 16 October 2014 after the Indonesian government had not taken any compelling steps to approve Brazil’s proposal. After a thorough process of negotiation and dispute settlement in the DSB, the Panel issued the final report in 2017, favoring the Brazilian government. As a consequence, Indonesia lost the lawsuit. However, Indonesia did not immediately comply with the recommendations until 2019. Thus, this study will be comprised of the analysis of Indonesia’s case study of the poultry industry from 2009-2019.

While having the nature of case study research, this study intends to give a specific scope to elucidate Indonesia’s trade policy within the poultry industry, particularly on chicken meats and chicken products sectors. Therefore, this study will be limited to only one sector and does not take into account other industries that might also be influential within the series of Indonesia’s general trends on protectionism. In other words, the primary analysis and critical findings might or might not apply to other industries. Therefore, it will leave spaces for future research to examine other cases or industries by applying multiple case studies; considering the trend of Indonesia’s autarky and self-sufficiency continue to be implemented under the trade law and administered under the Bureau of Logistics (*Badan Urusan Logistik*, or BULOG) for a set of products such as rice, sugar, soy products, meat products, fish, to name but a few. Thus, it will help future researchers to understand the political economy of two-level negotiation that will foresee the simultaneous

occurrence between domestic conditions and international externalities, which will affect the state's bargaining position.

Bearing in mind that the core of this research question is exploratory, this thesis will examine trade barriers imposed by the Indonesian government, which encompasses political economy motives from the domestic actors. Perhaps it also shall be noted that these domestic actors' influence might be involving the process of negotiation, lobbying, and rent-seeking; thus, the access of information might be limited or restricted to some extent due to the sensitive data. Therefore, the data will be mainly derived from official and recorded data and interviews that are going to be managed.

Referring to the main research question, this study aims to analyze the domestic actors' influence on the Indonesian government decision-making process that balances the two-board game. Subsequently, this study is limited only to the Indonesian point of view or as an 'insider' standpoint. This means that the study is focusing on the dynamic of Indonesia's political economy without taking into account Brazil's domestic political dynamics.

1.6 Significance of the Study

This thesis seeks to contribute to the development of political economy studies in Indonesia, especially its implication of domestic politics to the WTO and international trade. Although there have been several attempts to explain the domestic political economy in Indonesia, they are inadequate in terms of a systematic framework, in particular, dealing with the WTO. Frequently, either the studies have focused too much on domestic politics and left the international trade implication that is directly corresponding, or vice versa.

When it comes to domestic politics studies in assessing the trade policy, they overlooked the global trade structure, international institution, and international law – which are the essential considerations to evaluate the regulations and process of political economy. On the other hand, the studies of the international political economy often overlooked domestic politics, institutions, and underlying structures

of state economies, and first and foremost, the business-politics relations that exemplify patrimonialism, and in turn, impede market liberalization and restrict the entry of foreign business and investment.

For example, the Indonesian government-business relations have been critically examined (Faisal, 2013; Fukuoka, 2012; Vedi R. Hadiz, 2013; Vedi R. Hadiz & Robison, 2013; A. I. J. Hartono, 2011). There is a common acknowledgment that democratization and post-Suharto political economy have enabled domestic interest groups and oligarchs to have a more latent capacity in national economic policymaking. Yet other studies that focus on Indonesian political economy in agriculture and food self-sufficiency are inadequate (Ahn & Gnutzmann-Mkrtchyan, 2019; Hamilton-Hart, 2019; Rigod & Tovar, 2019; Rumokoy, 2020), given the fact that the legal-economic approach would not capture the dynamics between political actors. Unfortunately, none of the Indonesian political economy studies have focused on domestic political dynamics in conjunction with its compliance with the WTO agreement as to the global trade regime. Therefore, this thesis will reveal the difficulties of Indonesia's agriculture liberalization and compliance with the WTO law. This research will also illuminate why domestic interests could incriminate the commitment of the state under international trade law.

By analyzing the factors that drive domestic political economy motives and their implication to the WTO regulations, this thesis will provide a robust framework of policy recommendations, including its implication both domestically and internationally. Therefore, this thesis will provide an analysis that will be beneficial for the stakeholders in harmonizing the forces by way of analyzing the hindering factors in agricultural liberalization and providing a clear analysis of business-government relations, particularly in the poultry industry, which will avoid confusion among industry players. For these reasons, it will unleash the industry's potential and reengineer Indonesia's poultry business comparative advantage in foreseeable prospects through the specialization of goods by making efficient production and well-targeted segmentation. Even though the growth potential of the poultry industry in Indonesia is enormous, considering its potential aggregate consumption, one needs to acknowledge that the removal of government

interference in the liberalization process is imperative – and at the same time, it is a complicated process. However, the role of the Indonesian government remains essential in providing infrastructure development to achieve further economic development. On the other hand, rigorous protection will restrain the government's negotiation at the international level, making both hands tied.

1.7 Structure of the Thesis

The first chapter comprises the introduction and the background of the study, research question, research objectives, thesis statement, scope and limitations, and significance of the study.

In the second chapter, the literature review of previous works and studies will be critically discussed. The literature review parts are divided into two big themes: (1) two-level game of WTO Dispute Settlement. This section will be breaking down the two-level game theory and two-level negotiations in the WTO. (2) Economic nationalism and government-business relations in Indonesia. This section will provide a literature synthesis on Indonesia's economic nationalism that works 'hand-in-glove' with the patron-client relationship.

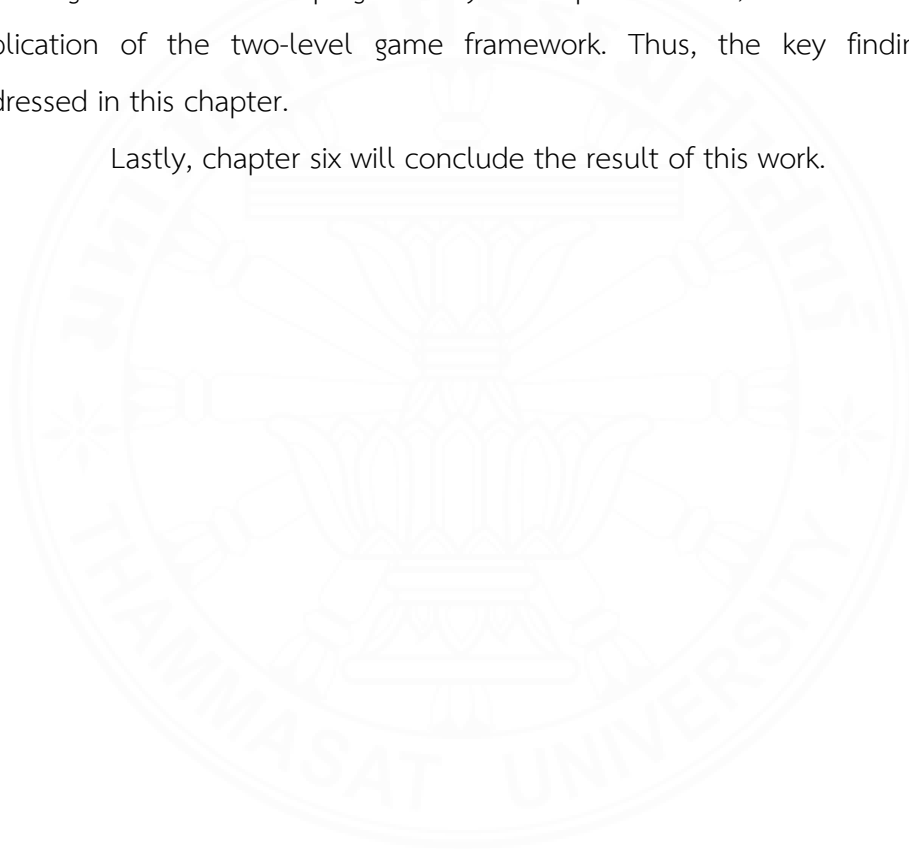
Chapter three is devoted to organizing the research method and conceptual framework. Based on the discussed literature in the previous sections, this thesis will provide a thoroughly planned conceptual framework to help the flow of this thesis remain on track within the proposed analytical structure. It is distinct that the use of a case study as a formal research method will be plausible to be generalized to theoretical propositions. Moreover, the proposed conceptual framework will be used to analyze both factors of domestic and international through a political economy approach.

Chapter four will offer an overview of Indonesia's agricultural politics and the poultry market structure. This chapter will also present several foods- and agricultural-related policies and regulations which are/were challenged by other WTO members. This chapter will also give Indonesia-Brazil background as 'global swing states' in the WTO and international trade order. The last part of this chapter will

unpack the structure and the dynamics of the Indonesian poultry industry and its key players, including companies, business associations, trade unions, etc.

Chapter five will analyze and answer to what extent the aforementioned domestic actors could influence the decision-making process of the Indonesian government in terms of agricultural and poultry trade policies. The second part will analyze its implication to international trade and Indonesia's commitment under the WTO, given the complex interplay and intense pressure between domestic actors and the government. In helping to analyze this predicament, the author employs the application of the two-level game framework. Thus, the key findings will be addressed in this chapter.

Lastly, chapter six will conclude the result of this work.



CHAPTER 2

REVIEW OF RELATED LITERATURE AND STUDIES

This chapter will be divided into two main sections: first, two-level game theory by Putnam. This section will review the theoretical emergence of two-level game analysis and examine how the theory has been developed and applied to cases of the WTO negotiation and dispute settlement processes; second, the use of economic nationalism in the historical accounts of Indonesian political economy that includes politico-business relations in different regime will be examined.

2.1 Two-level Game Theory

The issues of domestic and international interaction have gained much attention to the subject of international political economy and the politics of WTO. In both spheres, the interplay of international trade and economics will affect the domestic structure one way or another. Although the international arena remains essential in the sense of state-to-state interactions, domestic interest will nevertheless play a significant role in influencing the national trade policy. Cohn (2012) argues that under the liberalist point of view, domestic groups are important actors because they account for the role of non-state actors. However, despite the optimism of international trade after the institutionalization of the global trade regime (i.e., the WTO), integrating international and domestic politics and economics is a complicated process.

Even though the formation of WTO was considered a success story by many – where it could bring all trading partners on to the table to negotiate and settle the dispute – trade-restrictive measures continue to be implemented due to domestic pressure groups that influence national trade policy (Lehmann & Volckart, 2010). The idealist notion views that the core value of international trade lies in a more globalized world, where the activities of exchanging goods and services are based on efficiency and comparative advantage (Gallardo, 2005). Globalization per se has been playing an essential role in easing international trade when the power has

been diversified and diffused. In this regard, Joseph Nye (1990) has coined the term of power diffusion in which the trend of economic interdependence and transnational actor has allowed global market revolution and acceleration of overseas market operation, thereby crowding the stage of non-state actors.

On the one hand, globalization enhances international trade, which is benefiting end-consumer with lower prices with various product options, hence caused competition. On the other hand, domestic producers might suffer due to heightened competition. This predicament has made the national government facing two-directional pressures, either international or domestic. Moreover, Cohn (2012) has deliberately uttered that domestic producers tend to unite and determine in out speaking for protection because the foreign product presence is too risky and might have won over domestic goods.

In another sense, these domestic groups are perceived as rational actors who demand protection as they might have lost in terms of competition (Atkinson, 1983). Frey (1984) points out that domestic actors who have concentrated power and shared interest will be more likely to leverage their concerns by influencing policymakers. As a rational choice theorist, both Frey and Atkinson then further argue that the public choice body of thought will attentively explain why restrictive trade measures in the political economy remain prevailed if the interaction between the domestic public sphere and politics is assumed as favorable policy toward median voters.

In a more recent study, Cohn (2012) contrastingly offers a different perspective that public choice theory is inadequate to provide an in-depth analysis of why restrictive trade measures continue to exist. At the baseline, it is essential to distinguish the public interest of those who have concentrated and diffused interest. Cohn argues that concentrated interest groups could not be overgeneralized to have a shared interest. The interests thus might be differed from one to another. For example, an anti-protectionist group like exporters, import-based industries, and multinational enterprises do not always share similar interests as the one who turns down free trade. Therefore, concentrated local producers do not necessarily represent the general public choice (p. 91).

However, in a particular industry, the concentration of interest will be more likely in place. The local producers who have suffered from the competition against foreign products will eventually form a coalition and ultimately demand favorable policies. Hence, it is necessary to look at a particular coalition if it is already formed and investigate whether the function of that association is aiming to extend its interests toward the government as a means of policy input or demand.

In the liberalized market, the tariff reduction is a long way process to be finished. The government has to deal with various actors and stakeholders to satisfy all involving parties. Not only deal with the complex structure of domestic politics, but the international arena is also always the foremost concern of the country – as it implicates one way or another. Thus, a prominent scholar such as Robert Putnam (1988) has remarkably addressed this complex relationship into a robust framework called two-level game theory. This conceptual framework's focal point attempts to explore the complex phenomenon of domestic and international interaction.

In the politics of WTO, the interaction of domestic and international realms is frequently associated with trade disputes. The structure of economic integration has allowed countries that have joined the WTO to utilize its feature as a negotiation forum and dispute settlement mechanism. The WTO covers a wide array of issues, including trade in goods and services, intellectual property rights (IPS), transparent commitment regarding the trade policies which have to be notified to the WTO secretariat (WTO, 2017b); the member countries are continuously calibrating and prescribing their trade policies to be eventually in line with the WTO requirements and, at the same time, satisfy the domestic ultimatum. As countries have accorded the WTO agreements, they have to be committed to this rule-based institution, which covers tariff reduction and removal of other non-tariff barriers. Conversely, the economic deal of free trade over tariffication or tariff reduction is not purely economic reasoning (See, for example, how the EU and the US have utilized the dispute settlement and the appellate body in Garrett & Smith, 2002). The politicization of the global trade integration, especially under the WTO regime, has therefore justified countries' political economy rationales in ratifying the WTO law.

Although the framework of the two-level game has been widely used in the academic literature involving the study of the international organization, Putnam (1988, p. 442) emphasizes that this conceptual framework could be married with another wide range of perspectives to further support the analysis. For instance, the perspective of economic nationalism and interest group can be incorporated with the government's arrangement in dealing with the global trade regime and domestic structure. A study conducted in (1996) by Norman Schofield has extended the conceptual framework of rational choice in the study of political economy. Schofield has underscored that rational choice theory is designed to study human behavior in which it analyzes the interplay and consequences of human impetus within institutions (p.190).

Given that rational choice is rooted in economic theory, it has been widely used in the analysis of political and human behavior in general. This theory has been developed to serve the purpose of designing the normative purpose of 'good' institution, or as economists have referred to as 'Pareto optimal' to devise 'good' political and economic institutions.

However, Schofield (1996, pp. 190-191) argues that the normative approach of 'Pareto optimal' (method-driven approach), at this point, could not be the standardized foundation of design. Extending the traditional approach of rational choice methodology, Schofield defends this theoretical foundation should be constructed on preference-based theory in both behavioral studies of economics and politics. Nevertheless, it is vital to highlight the difference between preference and belief because it might conceal a different rationale for each decision. Thus, to find a moderate approach, it justifies 'game theory' as Schofield and Putnam have offered.

Therefore, political economy as an interdisciplinary study merges between the preference that exists in the economic (equilibrium and optimality) and public goods, which analyze the political system and other categories fall within democratic polities' preference. Thus, it is essential to identify the various branches of studies of economy, politics, and political economy.

Table 2.1

Rational Choice in Economic, Politics, and Political Economy

	Economics	Political Economy	Politics
Normative	Welfare economics	Social choice	Normative political theory
Theoretical	Market (equilibrium) theory	Game theory	Rational choice theory
Positive	Public economics	Public choice	Theory of institutions
Empirical	Macroeconomics	Institutional political economy	Political science

Source: (Schofield, 1996)

Table 2.1 suggests that the political economy encompasses the approach in the sub-division of economics and politics at the same time. While the market theory deals with the equilibrium and its parameter, welfare and public economics address the normative and public economic features of the relationship between government and its behavior. Also, macroeconomics incorporates the empirical facet of those relationships. Likewise, the integration of rational choice in politics covers normative, theoretical, positive, and empirical approaches. In the relationship between politics and economy, game theory has been clarified to unify the latter interdisciplinary.

Thus, the conceptual framework of the two-level game proposed by Putnam could be categorized in the realm of the political economy, according to Schofield's explanation. Two-level game theorists observe international negotiation involve states' interests and obligations (level 1). States hence have to comply with their international obligation, which commitment is accorded under the global regime. In doing so, states will pursue the interest they aim in the international arena while at the same time, the outcomes of international negotiation (i.e., agreement, ratification) should be legislated at the national level. However, the aftermaths shall be prescribed into a policy that satisfies domestic demand as well. As a result, states will bargain with domestic actors to reach legislation of the outcomes of international negotiation (level 2). Domestic interactions are a crucial factor since they deliberately do not accept the agreement without any consideration. Through a coalition, they

create pressures to be used as leverage toward the government in order to obtain favorable policies, and in return, politicians utilize this to go after power.

Putnam (1988, p. 457) also expounds that the chief negotiator determines the success of a two-level game. The chief negotiator could maximize its approval at level 2 by multiplying political resources or lessening potential losses. From this, the chief negotiator could balance the power at level 2 to formulate favorable policies toward domestic politics. Frequently, the negotiation that took place at level 1 could lead the government leaders to become powerless or lost his/her credibility in the domestic arena. Another motive also can come from the notion of national interest that is brought to the international arena.

At level 2, the negotiation is affected by the international deal in which legitimacy from domestic actors is needed to ensure its effectiveness. Similarly, Cohn (2012) underlines that the degree of consistency must be developed in the two-level game framework in which the interests of both international and domestic are appropriately accommodated. However, the fundamental purpose of game theory is to grasp the most possible “win-set” that level 1 can gain legitimacy from level 2 and vice versa. In other words, this framework designs a win-win solution for both international and domestic interests without disregarding one.

It has been elucidated explicitly that the “win-set” of two-level game theory is unfeasible to meet the collective approval point from all involving parties. Therefore, this theory identifies the optimal outcome of negotiation conducted involving all international and domestic actors. For example, the effects of reducing or maximizing win-set size are best described through the illustration below.

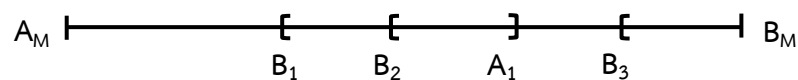


Figure 2.1 Illustration of Win-set Size

Source: (Putnam, 1988, p. 441)

As **Figure 2.1** suggests, A and B represent the two-level negotiation coming from international and domestic. This figure portrays the zero-sum game between A and B. A_M and B_M are signifying the maximum result both could obtain. Putnam argues that the agreement can be approved by both parties in the range between A_1 and B_1 . However, if the B win-sets were unable to reach the maximum outcomes, which is B_1 , then it is shifted to B_2 – hence, the outcomes between B_1 and B_2 are no longer achievable. Then, if the B win-set only could reach B_3 , there is no longer overlapping between two win-sets A and B, resulting in no-agreement. This figure also shows competing interests between two actors.

It is also noted that the negotiation at the two-level game can be characterized by the country's preference in subscribing to three crucial factors, such as (1) domestic preference and coalitions, (2) domestic institutions, (3) and negotiators strategies in the international arena. Therefore, at this point, the country's direction could be analyzed whether the orientation of such a country is internationally oriented or isolationist and supporting self-sufficiency (autarky). However, of course, both two broad directions would have different approaches and outcomes in respective strategy, so do each win-set determinant would be portrayed dynamically. Each domestic actor possesses its win-set, which is conceptualized as a political indifference curve, as indicated in **Figure 2.2**. This conceptualization represents the negotiation political indifference in each win-set that restrains policy options, which will be ratified in two sides (Yee, 2004). This figure shows that the overlapping interest will result in harmony, in the sense that agreement will be achieved. However, the dynamics of political reality are difficult to be portrayed within a reductionist figure. Therefore, it is necessary to look at the case contextually.

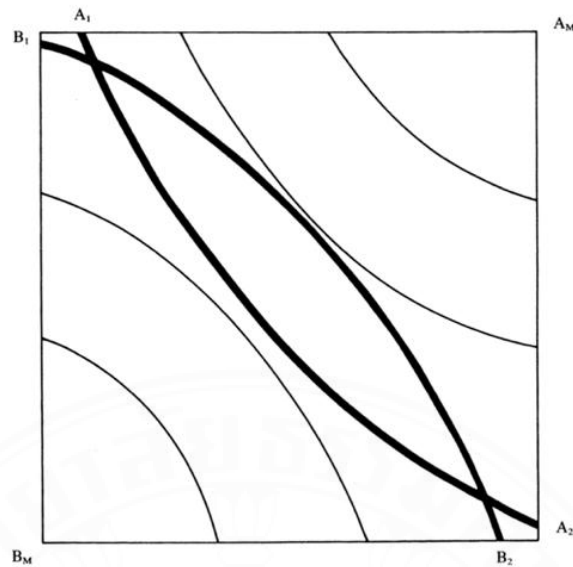


Figure 2.1 Political Indifference Curve in Two-level game

Source: (Putnam, 1988, p. 447)

Within the realm of rational choice theory, the state is often associated with a realist perspective, especially in the discipline of international relations that portrays states' behavior in maximizing its interest in a given international structure (i.e., anarchy) (Guzzini, 2017). The main focus of the realist assumption is emphasizing the state as a unitary in international relations, in which sub-national and transnational actors are supporting in subsidiary position (Legro & Moravcsik, 1999). Realists perceive the state as a rational actor in its behavior of maximizing benefit and minimizing cost. In line with Schofield's argument, it underlines that rational choice is a way to conceptualize the framework in explaining human and political behavior, incentive, and consequences in the institution. Thus, it is safe to say that the state is widely referred to as a rational decision-maker in the realist view. However, Cohn (2012, p. 57) offers a slightly different argument on how the state behaves. Instead, the state is perceived as value-satisficing rather than value-maximizing decision-makers, given the fact that the state may lack the capability to make an optimal choice.

In contrast, the assumption of the state as a rational actor in international negotiation is inadequate to explain to domestic actors when the interactions involve much greater complexity. Thus, Putnam (1988, p. 442) suggests that such a framework

should be entrenched based on domestic political theory, which covers the power and preferences of significant players at level 2. It is also clear that two-level negotiation might weigh its proportionate. Thus, international pressure is indispensable – while, under other conditions, domestic turbulence undoubtedly would challenge the international pressure. As a result, the national interest will be justified in the decision validation.

Neither is clear that the analysis would be the domestic causes and international effects (second image) nor international causes and domestic effects (the second image reversed). Instead of focusing on the top-down or bottom-up approach in analyzing the complex reality in which the sources are not easily codified, it is therefore inadequate to gaze only from one direction. Incomplete equilibrium would definitely not explain the whole story. It validates that international negotiation could be influenced and entangled by domestic politics. Therefore, it is necessary to break down the general equilibrium to procure complete analysis, taking into account the interaction between international and domestic simultaneously.

2.1.1 Two-level Game of the WTO

Much of the literature published in the subfield of political economy has linked international and domestic interactions. The studies of regionalism and economic integration – e.g., the European Union (EU) integration, ASEAN Economic Community (AEC), and particularly the WTO – have gained attention from scholars, practitioners, government officials, and businesses. Aside from the fact that the purpose of the economic deal proposed by the involving parties is to achieve more interconnectedness, this body of literature has attentively been engaged in power politics, extending the scope of which to power relations and interest.

As the theoretical proposition of game theory is integrating normative and empirical sense; hence it will be adequate in analyzing the WTO as an institutional political economy and social choice through two-level game theory. However, too much emphasis on the institution itself will not be adequate to capture all the stories behinds it. Thus, we have to withdraw the weighted analysis from the institution-based and state-centric analysis, where it has been criticized by Sylvia Ostry (2004)

and Paarlberg (1997). The criticisms toward the two-level game derived from Paarlberg is that the government leaders are assumed to be always in the position of facing “both game boards” (p. 415).

However, as these global integrations have progressed, the interactions between international (the WTO) and domestic (with interest groups or stakeholders, including businesses, unions, farmers, academics, and non-governmental organizations (NGOs) have become more complex more than ever (Ostry, 2004). Therefore, in the politics of WTO – as others have already noted – foreign policy and international relations could not simply disregard the importance of domestic politics among parties, social classes, interest groups (economic and non-economic), legislators, and public opinions and elections, rather than stressing the variable of interest onto executives and institutions/organizations (Putnam, 1988, p. 432).

While Putnam has already put forward the conceptual framework with several supporting examples, Paarlberg (1997) has attempted to unpack the process of progress of this international regime by explaining the Uruguay Round as an internationalization (establishment of the regime) in promoting domestic policy reform through the application of two-level game theory. Paarlberg has underlined in the preliminary work analyzing the domestic political dynamics of trade liberalization in the Uruguay round trade negotiation in the establishment of the WTO from GATT. In this regard, the prominent examples recall the process of how the EU and the US had implemented subsidies on agricultural sectors. The liberal agricultural reform in the EU in 1991-92 with Common Agricultural Policy (CAP) and the US in 1995-96 with approval of Federal Agricultural Improvement and Reform (FAIR) had prompted the government to sort out multilateral negotiation in Uruguay Round with domestic structures. It is agreed that domestic policy instruments where the pressure groups are lobbying the government have shown the importance of its central role in instituting the element in the international trade negotiation table (Olper, 1998).

A renowned economic integration concept of embedded liberalism expounds on the difficulties of multilateral negotiation in which states would accept liberal world rule and order at the border and grant autonomy to deal with the dynamics beyond the border (Paarlberg, 1997; Ruggie, 1982). The nature of international

structure has allowed that two-level game theory comes into place, given the fact that post-war international authority has forced the states to enter liberal world order (including international trade and global trade regime, the WTO). Therefore, internationally, states attempt to maintain the hegemonic stability at the international structure – while at the same time, domestically, states will remain to continue their autonomy to arrange domestic needs under the banner of sovereignty to adjust the globalized economic integration.

In empirical research, Homma and Hayami (1986) provide a profound hypothesis in illuminating agricultural protection for domestic farmers. At the domestic level, the critical variable of interest of the domestic political market should have been the main courtesy. Besides, the coalition of domestic actors forming an organized political agenda to respond to the international market structure is intended to seek demand protection (Paarlberg, 1997). Therefore, it implies that the root of protectionist policies emerged from domestic politics, which is the interaction between domestic pressure groups and government. As a consequence, the protectionist agricultural policy will encompass cross-border magnitudes.

Two-level game analysis has been extensively employed in the WTO cases as the WTO accession affects the state's behavior in the international arena due to domestic factors, which include trade protectionism, domestic demand, et cetera. For example, China's agriculture was vulnerable if it was exposed to the world market, yet China could survive somehow. In the study published in 2005, after China joined the WTO in 2001, Han Donglin (2005) examines both international and domestic factors of China's agriculture market. China's economic integration through its membership in the WTO had been predicted that China would suffer due to the incorporation of the domestic market with the international economy. However, China had been affluent in utilizing the WTO accession and had continued to maintain trade barriers. Donglin has uncovered that China was able to survive the WTO accession because the government had strategically specialized domestic agriculture production. Hence the comparative advantage was utilized to maximize the gain from the process. Besides, China also actively maintained its trade barrier consistently under the WTO laws through the implementation of tariff-rate quotas (TRQ) system,

state trading, and strict quarantine regulations and inspection. At the international level, the Chinese government has not only repositioned itself in the midst of growing global economic integration, but it also has adjusted the policy to pivot the domestic ultimatum by reducing the provincial tax – thereby cushioning the burden on farmers through the utilization of production incentives.

In parallel, Albert S. Yee (2004), in his work entitled “Domestic Support Ratios in Two-Level Bargaining: The US-China WTO Negotiations,” employs two-level bargaining analysis to elucidate the integration of domestic and international influences in the WTO concessions between US-China. Yee defines that in between two main actors, the US and China, each has a “win-set” that consists of policy options. Such policy options refer to as achievable agreement zone to be agreed by two government leaders and, of course, ratifiable to their domestic constituencies both at levels 1 and 2. However, Yee has cleverly extended this theory to shed light on the two-level game involving two countries analysis that focuses on ‘resistance point,’ which would directly affect the ‘zone agreement.’ At level 2 of those two countries, each country’s domestic politics has its resistance points ranging from hard-liners accommodation to cross-manipulation. Such resistant points thus would affect the state’s negotiation strategy at level 1, whereby Yee argues that domestic resistance would lead to three possible strategies, i.e., cooperation, defection, and tying hands. These strategies would eventually determine the zone of agreement between the two countries. In this developed conceptual framework, the lower the resistance point, the larger the room for both countries to reach the zone of agreement. In the curvature of agreement zones, the Pareto frontier or the maximum outcomes that negotiators believe they can get are the initial zones for both countries. However, due to domestic pressures (both hard-liners and accommodationists have had different effects and strategies), the gain ultimately eventually becomes lower or higher, depending on the domestic constraint on particular issues. Furthermore, Yee has proposed six propositions of dynamics that could have happened within the analysis of two-level games, depending on various criteria of domestic pressures and their effect on international negotiation.

In another case, a two-level analysis has been applied in Saudi Arabia's bargaining position in which the fragmented domestic system has had effects on the WTO accession. Steffen Hertog (2008) has shown that the state's structure and the underlying relationship between state and business could generate different outcomes in specific policy prescriptions. Moreover, it is noteworthy to observe the domestic interest aggregation, which will affect the decision-making mechanism despite the fact that the institutional analysis might not include the individual interest of a specific pressure group at the domestic level. Although substantial investors in Saudi Arabia had embraced the trade liberalization through its comparative advantage in producing oil, the smaller manufacturing industries which received protection were nevertheless anxious about the competition. Therefore, Hertog has acknowledged that state-business relations are an essential aspect to include in the literature, particularly in the developing countries context. It can be concluded that the fragmented system within the bureaucracy in terms of low-technical capacity and lack of horizontal coordination has resulted in inefficiency to comply with the WTO requirements. On the other hand, the diffused interest among the businesses has led to the point where they are lacking collective capacity in addressing the concern toward the government. Moreover, Saudi's system has created an administration that offered little room to channel broader alliances in a coordinated movement to resist or demand policy change (Hertog, 2008).

From the abovementioned studies, the lessons that could be learned from two-level negotiation analysis cover a wide array of findings, deepening the theoretical and empirical research on each country's negotiation strategy both at levels 1 and 2. It is evident that analysis focusing on different countries would have diverse characteristics, particularly within different industries, domestic preference and coalition, and resistance points. The negotiators also clearly have a different approach and strategy to deal with different actors from both international and domestic. Due to the difficulties faced by the negotiators in defining the precise win-set that each actor has, the theoretical proposition surely helps the decision-makers to conceptualize all possible dynamics that could happen on the two-board game. However, it is also found that not every decision-maker is able to conceptualize all

the dynamics. Instead, they assess domestic support ratios subjectively (Yee, 2004). Not only because domestic and international interactions within the study of politics and negotiation under the framework of the WTO have become more complex, but empirical evidence and ideological embeddedness are also aggravating the negotiation processes. Therefore, this approach can be extended with newer evidence to elucidate other cases as well, including the trade dispute in the WTO.

2.1.2 WTO Dispute Settlement: The Tension between Global Trade Regime and Domestic Politics

The study of the WTO dispute settlement has been circulated among scholars, lawyers, practitioners, and government representatives. While there are many studies that address the legal obligation of dispute settlement body (Bello, 1996; Bown, 2005; Cameron & Gray, 2001; Mitchell, 2007; Wilson, 2007); however, of course, the overlapping disciplines between economics and trade, international law, international relations, and politics are also part of the dynamics of the WTO. In particular, the study of politics of dispute settlement in the WTO has been addressed by Bown (2005), Bown and Hoekman (2005), and Garret & Smith (2002) and Pritchard (2005) to name but a few.

The development of the WTO negotiation is a never-ending process in which the negotiation of the Doha Round has yet to be concluded. Whereas some praised the WTO dispute settlement mechanism as the success of establishing rules-based liberal trade order – that is, institutionalism, a factor of which can constraint unilateral foreign trade policy – critics toward dispute settlement body in the WTO have also been addressed by many (Jackson, 2004; Lindsay, 2003; Mitchell & Voon, 2009; Smith, 2004). The issues covered in the critics are sourced from different disciplines, i.e., international law, international politics, and political economy. Such critics also cover from inequality, the balance of power (in the political sense), to the framework of the WTO dispute settlement that arguably only benefitted developed countries, albeit the special and differential treatments given to the developing countries. However, despite the pro and the cons, the reasons why the governments join the WTO is because states are eligible to initiate dispute settlement and participate in the formulation of WTO rules (Charnovitz, 2002, p. 39). The purpose of

joining the WTO thus lies in the benefits by which member countries could utilize the dispute settlement in order to extend its interest.

Other critics from the international law discipline also underscore the ambiguity of articles in the GATT 1994. Such an ambiguity, particularly in Article XXI, Lindsay (2003) argues, is a product of which international trade players and governments have framed national security as a necessity to provide greater flexibility for countries to respond to security concerns without destroying trade liberalization. However, the governments have taken this ambiguity to further adopt protectionist policies by interpreting the general exceptions as stipulated in the GATT as a way of maintaining specific industries under every conceivable circumstance (Mitchell, 2007; Mitchell & Voon, 2009). Therefore, whose interpretation of articles in the GATT 199, which would affect the dynamics of international trade, does matter. The friction of ambiguity and multi-interpretative principles and rules in the WTO has allowed governments to impose trade-restrictive measures, thus allowing further trade protectionism policies. The contradicting views regarding this issue have drawn much attention from international politics, international economy, and international law scholarships.

James R. Cohee (2008), among many scholars, has interestingly studied the impact of legalization of the global trade regime as in the WTO toward domestic politics. Despite the American-centric analysis found in the article, Cohee contends a reasonable justification as to why choosing the US as a case study is important to withdraw an empirical conclusion. Although choosing the US as a case study to examine the domestic political dynamics in correlation with international trade might be fruitful – as he claims that there are institutional, criticism, and initial support legalization importance – it also can be too American-centric. Cohee acknowledges that negotiators in the early Uruguay round had carefully balanced the two-level negotiations, thus illustrating embedded liberalism.

2.2 Economic Nationalism and Politico-Business Relations in Indonesia

Economic nationalism is nothing new. The interplay of state and its plan to promote its domestic economy over the foreign one marks the approach of mercantilism – even though economic nationalism does not nullify the liberal policies or economic liberalism to some extent, as Helleiner and Pickel (2005) suggested. Economic nationalism is a complex phenomenon. The origin and effect are interrelated in a multifaceted way. It goes beyond the conventional method of protectionisms, such as protecting domestic consumption through tariff and non-tariff barriers: dumping and export subsidies, as many countries have implemented (Hieronymi, 1980).

The issue of nationalism and the embedded value of nationalities over the “foreign” ownership has dominated the politics of economic development discourse. Other than foreign ownership regarded as the main discourse in economic nationalism, Hieronymi (1980) asserts that weak currency, inflation, rich and poor countries division, level of unemployment will burgeon protectionist supporters to prioritize domestic economy. Furthermore, Hieronymi further argues that economic nationalism might have been a cause and a consequence of the economic crisis.

In the context of Indonesia, Thee Kian Wie (2011), a respected Indonesian economist, has asserted that economic nationalism and domestic politics in Indonesia is an essential factor in determining particular economic policy since the beginning of the nation-building process, starting from Sukarno up until the current regime, Jokowi. Similarly, as Chalmers and Hadiz (2005) have suggested in their book, “The politics of economic development in Indonesia: Contending perspectives,” Indonesia’s economic development has been politicized. There are many pieces of evidence that economic nationalism works “hand-in-glove” with corruption, rent-seeking, and “bread and butter” relationship in which both government and business are another’s a source of income (See Chalmers & Hadiz, 2005; Eklöf, 2002; Hendrick-Wong, 2018; McLeod, 2000). According to Kreuger, the more significant intervention of the government in the market, particularly in the context of developing countries – as economic nationalism does – the more the chance that it would have generated

rent-seeking, which was seen as a *quid pro quo* (Kreuger, 1974, as cited in McLeod, 2000).

Many studies have explicated the role of state and business in the economic policy debates. One of which has provided valuable insights on how the policymaking process revolves around the discussion of whether or not Indonesia's economic policies benefitted the Indonesian people. The debate continues to which direction Indonesia is heading as the political economy discourse gained more attention in the state circle, including state apparatus, technocrats, academia and students, and civil society. As early as Indonesia's economic development started during Sukarno's reconstruction and Suharto's New Order, the ideological foundation of economic policy is divided into statist-nationalism, economic liberalism, and economic populism.

Although there are three primary economic schools of thought, Indonesia's economic development ideology is dominated by economic nationalism, which emphasizes the vital role of the state in economic policies (Chalmers & Hadiz, 2005). The emphasis on the role of the state also shows its capacity as a unity and hierarchy to some extent. The state corporatism is apparent when the government intervenes in the development agenda alongside many manifestations such as nationalization of foreign companies, nationalistic rhetoric and policies, imposing non-tariff barriers, illiberal trade-restrictive measures, etc. While economic nationalism tends to dominate the economic development discourse, economic liberalism and economic populism also gained their legitimacy in certain instances. The commodity boom has indeed legitimized the primary role of the state in the economy, but when Indonesia had an economic downturn, it weakened economic nationalism. As a consequence, economic liberalism and populism came into the picture as a critique. Chalmers and Hadiz (2005) point out that the economic nationalism and other ideologies in the context of Indonesia always refer to the underlying economic principle noted in the National constitution of 1945 and Pancasila. However, Article 33 in the national constitution that becomes the reference of many actors also comes with different results and justification, depending on which actors and their interests.

Therefore, it is crucial to clarify and unpack economic nationalism in each presidency as each actor has a different approach in interpreting and realizing economic nationalism. Thee (2011) also reasons that by looking through the prism of economic nationalism, the discussion about Indonesia's modern economic history thus will be fruitful, although offering one perspective in explaining Indonesia's economic direction might be speculative since there are many actors involved, complex decision-making process, business interests, and so on.

2.2.1 Economic Nationalism under Sukarno

In the national development framework, the history of a nation per se is strategically and fundamentally important. The first president of Indonesia, Sukarno, was the most nationalistic figure as a founding father. The process of nation-building was colored with the mobilization of a nationalistic approach as a tool to achieve political purpose in gaining independence as part of the anti-colonial movement (Hendropriyono, 2008; Supardan, 2013). Even though Indonesia was able to proclaim its independence in 1945, but during the political independence movement 1945-49, up until the Round Table Conference, which is the transfer of sovereignty to Indonesia, the government had no economic independence (Thee, 2011).

Under Sukarno's Guided Economy and Democracy, the process of nation-building had allowed economic nationalism to sustain. The transfer of sovereignty to Indonesia was accompanied by the *Financiele en Economische Overeenkomst* (Financial and Economic Agreement, or Finec), which regulated the nationalization of Dutch companies, albeit the conditionalities attached. This economic agreement was intended to continue Dutch economies to run in Indonesia despite political independence (Thee, 2011). It is, therefore, apparent that the newly established nation had to struggle with economic independence, particularly in the modern sectors and industries, prompting the government to pursue economic nationalism.

The extent to which the role of the state in intervening in the market has been categorized into two poles of economic nationalism, i.e., moderate and extreme pole. According to Supardan (2013), a moderate pole refers to those

who support that attracting foreign investment is necessary to accelerate economic development. However, the state's intervention will be needed insofar as the state indigenized (*mempribumikan*) of those credits. This idea was initially supported and brought by the Ministry of Trade Soemitro in 1951. As Indonesia had gained political independence away from the colonial influence, many Dutch companies had been nationalized, particularly companies that are in strategic sectors in developing a newly independent nation. These companies are Bank (Bank of Indonesia), Cargo and Passenger Shipping (*Pelayaran Nasional Indonesia* or Pelni), Aircraft (Garuda Indonesia), and more than 250 plantation companies, mining, and primary industries were transferred to the national estate (Patunru, 2018)

On the other hand, the extreme pole of economic nationalism is oriented to prioritizing indigenous businesses. The indigenization at the extreme pole has been the primary cause of the social clash. The division between indigenous, Chinese, and “foreigner” has always been the issue. By nationalizing foreign companies and making them indigenous, economic nationalism was praised by many for its idea that embeds the liberation from imperialist restraint (Supardan, 2013). The indigenization process has put forward the central role of state-owned enterprises (SOEs) to build the national industry. This process is, however, identical to the removal of foreign domination.

Economic nationalism continued to be buttressed. The Minister of Welfare, Djuanda, through the Benteng (Fortress) program in the early 1950s, favored indigenous “pribumi” people or non-Chinese over other ethnicities (i.e., Chinese ethnicities) (Matanasi, 2017). Sumitro, who was the Minister of Trade and Industry in 1950-51, stated that *Benteng* meant to counter the Dutch economic interest (Sumitro 1986, as cited in Thee, 2011). The Benteng program also attempted to favor indigenous businesses and give incentives for *pribumi* to do business while giving them access to capital, import license, and other non-market advantages (Thee, 2005). The rationalization of this program was argued to counter Chinese business, which dominated the trade affairs at that time, just as in the colonial period (Thee, 2011). Instead of leveling the playing field between Indigenous and Indo-Chinese, the trade and socio-economic incentives given toward indigenous people had developed

an Ali-Baba relationship, in which Ali was represented by indigenous who received a license for import and access to capital but has minimum entrepreneurial skills, and Baba was the Chinese groups who received less favoritism but has the better ability at entrepreneurship. It is also argued that without the protection of the state, given superiority in entrepreneurial skills that Chinese groups had, the indigenous could not bear the cost once the “protector” or “patron” is no longer in power (Supardan, 2013).

In regard to food politics, Hamilton-Hart (2019) suggested that self-sufficiency in Indonesian food policy has always been politically influential since independence. The nationalization of Dutch-owned companies – primarily undertaken through the *Benteng* program that attempted to contain the Dutch and Chinese economic domination, and in fact, imposing ownership ban against the Chinese ethnicity – continued to be agitated by the government. For instance, 138 out of 154 rice mills in East Java were owned by the Chinese. The discriminatory regulation was later issued in 1954, instructing that the ownership had to be transferred to the indigenous Indonesian (Thee, 2011). This was also further legitimized under the Government decree 10 of 1959, which constrained the strong influence of Chinese business by banning non-indigenous ownership from rural trade. However, knowing that indigenous was lacking entrepreneurial skills, the economy was therefore in a downturn. Thus, the decree was suspended (Leo, 1978).

However, entering the 1955-60 period, Sukarno and its Guided Democracy and Economy had gone too radical because of the disbandment of elected Parliament, leading Indonesia to authoritarianism. The economy was also at the lowest level inasmuch as the inflation was extremely deteriorating, reaching hyperinflation at 600%. As a result, Suharto, the anti-communist individual, came into power in 1967 after the political turmoil took place due to the Coup attempted in 1965.

2.2.2 Economic Nationalism under Suharto

Under the authoritarian rule, the 32-year president had been arguably successful in improving the economy and eradicating absolute poverty from 40% to 11% in 1996. Yet, many big corporations have benefitted during Suharto's

economic nationalism, including his family business. While the achievement of Suharto was known as the “father of development” (Tarling, 2002), he was also one of the most corrupt leaders in the world, allegedly embezzled US\$ 35 billion, as Transparency International (2004) reported.

Suharto and his New Order regime had many economic reform packages that aimed to revitalize the economy, given the consequence of incapable financial management under the previous government. The political maneuver of Suharto replacing Sukarno, aggravated by the issue of communism, has legitimized the New Order to seek political and economic stability (Damuri, 2017). The financial fiasco thus had been recovered, thanks to the technocrats or the “Berkeley Mafia,” a group of academics who had studied overseas in the last few years of Sukarno’s regime and been recruited as the top policymakers in Suharto’s administration (McLeod, 2000).

However, the economic direction under Suharto’s era was debated and had different approaches, given the fact that he was holding power for the long-term, depending on the financial situation and the competitive advantage in international trade. Therefore, Indonesia’s economic reform is difficult to be assessed from only one perspective. One contentious political economy discourse on Indonesia’s structural economic reform was started when Indonesia enacted Foreign Investment Act in 1967, which marked down the economic liberalization and open-door policy. Although deregulation and ease of doing business were undertaken, the role of the state in the developmentalism project remained intact. The technocrats who were trained in the West became the primary actors in the decision-making process of Indonesian economic development (Chalmers & Hadiz, 2005; McCawley, 2011). Despite the structural adjustment that was intended to engage in neoliberalism, the Domestic Investment Act came later on, a year after the foreign investment regulation in force. Many argue that open-door policy commenced in the early stage of Suharto’s administration was a response to revive the economic crisis after Sukarno’s economy went into a downward spiral after having not enough foreign reserves due to extreme deficit trade balance as well as hyperinflation exceeding 600% and the failure of the eight-year plan.

As the living standard improved and the economy became more stable, Indonesia became more attractive to foreign capitals. Unfortunately, the foreign investment received from Japan had caused a riot *Malapetaka Januari* (Malari [January Disaster]) in January 1974. The over-presence of Japanese direct investment within various Japanese products advertisement caused an inevitable riot, led by poor urban youths who burned 800 Japanese cars and 100 buildings. As a consequence of the Malari protest, the government introduced more trade-restrictive measures, impeding foreign ownership and favoring indigenous business. The new foreign direct investment act in 1974 stipulated that foreign capital and ownership could only enter the country under joint ventures with a national company. However, the restrictive measure against foreign investment was only lifted in 1994 when the government realized that it is necessary to deregulate as part of increasing investment and economic growth (Thee, 2006, 2011).

The economic reform and recovery programs implemented through a series of the five-year development plan (*Rencana Pembangunan Lima Tahun*, Repelita) have arguably and evidently brought an economic upsurge to Indonesia, despite it only benefitted large-scale business, making the issue of equal distribution became the concerns of many, particularly to the indigenous and economically weak groups. However, Repelita showed the strong presence of the state throughout Indonesia's economic development during Suharto's years. The centralized economic development and planning were under the guidance of the state to intervene in the market. For instance, the state-owned oil company, Pertamina, had succeeded in bringing the oil boom and resulted in rapid GDP growth in the early 1970s. This surely benefitted Indonesia's economy, which relied dependently on the export commodity, particularly in the oil sector.

Economic nationalism continues to be legitimized despite the windfall revenues from oil booms. The government continued to promote indigenous business through two presidential decrees, 14 of 1979 and 14a of 1980. The decree was stipulated to give incentives to the economically weak group, which refers to indigenous Indonesians who were incapable of doing business – instead of the economically strong group, i.e., the ethnic Chinese (Thee, 2011).

However, this luck did not last long and retained as much as the government wanted. The oil boom period was over, bringing a domino effect to the economy. Although the government attempted to do economic reform by promoting other sectors, it was not enough. As a result, Indonesia had to reformulate its strategy to be more inward-looking and preferred import-substitution, local content requirement, import licensing, an export ban, as the endeavors to promoting and protecting local firms emergence and survival (Damuri, 2017; Patunru, 2018).

The end of the oil boom under state-led developmentalism had brought other schools of thought onto the table, such as economic liberalism and populism, as a response to the inadequacy of the role of the state. As a result, the idea of protectionism retrieved its legitimacy. For example, the concept of food self-sufficiency was aggregated and institutionalized under the banner of economic nationalism. The institutionalization of logistics monopoly in 1967 was apparent when the Ministry of Food granted the Indonesian Bureau of Logistics (Badan Usaha Logistik or Bulog) to serve its purpose in assuring domestic price as part of the centralization of power (McLeod, 2000; Rigod & Tovar, 2019).

After many economic reforms and packages were launched, including deregulation and lifting export and import barriers, the conglomerates who had benefitted the most in the previous economic boom remained to be protected. The regulation did not affect the cartels and monopolies. Import monopolies and other favorable facilities were given to these groups, especially those who were closest to the Suharto family or politically well-connected businessmen (Eklöf, 2002; Patunru, 2018).

During the New Order era, it is widely admitted that corruption, collusion, nepotism (*korupsi, kolusi, and nepotisme*, or KKN) practices had been embedded in the governance, policymaking, and politico-business relations; thus attracting countless scholarly works and debates among scholars, which oftentimes highlighted the success of Indonesia's economic development despite its ups and downs (Aspinall & Fealy, 2010). This shows that closely linked business to the government and its empire had monopolized economic development (Eklöf, 2002;

Gomez, 2002). On the other hand, many also argue that despite rapid economic growth during Suharto's era, the side-effect also came with it.

Gomez (2002) suggests that political business relations symbolize the close nexus of government-business ties, which is evident during the Suharto era. The favoritism of particular business interests given by the state by granting preferential treatment is referred to as "cronyism." The political economy and "bread and butter" were apparent when the strong emphasis of role in handling the economy had created links between government and business.

Political business, those who are politically connected with Suharto, notably ethnic Chinese tycoons, had received preferential treatment from the government, such as subsidized credit (Thee, 2011). This had not only increased the economic gap between the Chinese minority and the indigenous majority but also made the Chinese tycoons extremely rich, indicated by the total assets that went public right after the stock exchange boom in 1989 (Thee, 2006). McLeod (2000) noted that of all non-market forces provided by the governments, the state's role as the regulator had structurally and instrumentally benefitted tycoons, such as protection from imports, awarding contracts without bidding, providing access to cheap loans, granting rights to exploit natural resources, designation as mandatory partners in foreign joint ventures, rights to take over land, purchase of inputs at artificially low prices, favorable treatment by the tax office, rights to collect taxes.

Nevertheless, at the end of Suharto's patronage, *The Economist* in October 1997 had observed that the international communities seemed to lose their confidence toward the Indonesian government due to widely practiced corruption and cronyism, which essentially ruled the government, therefore prohibiting effective governance. However, as the Asian Financial Crisis (AFC) in 1997-98 had exacerbated the socio-economic crisis nationwide, as a result, public pressures impelled Suharto to resign. It thus created political turbulence led to a power vacuum with short-term presidencies.

Indeed, the AFC had unprecedented effects on Indonesia's politics and economy. The resignation of Suharto in 1998 after nationwide demonstrations that urged the authoritarian rule to step down marked down the new era of post-

Suharto economic nationalism. Even though the transition of power was mainly organized by the masculine movements across the nation, the decentralization of power was arguably relatively successful. However, during the transition period, Indonesia had to experience short-termed presidencies, Jusuf Habibie (1998-99), Abdurrahman Wahid (1999-2001), and Megawati (2001-04), daughter of the first president of Indonesia. As a result, the literature on Indonesia's political economy covering these periods in which presidential terms were short has had difficulties in tracking the government's response toward business interests and its intervention in the economy.

2.2.3 Economic Nationalism under Yudhoyono

The democratization, followed by the decentralization of authority after the fall of the New Order regime, has prompted businesses to pursue a wider sectoral of activism and collectivism (Faisal, 2013). The economic nationalism post-Suharto era thus tapered the role of the state, followed by the market-driven economy and economic liberalization. However, as Faisal argues, although the democratization has reduced the level of corruption and clientelism, it has not entirely removed the political patronage and favoritism toward business. The game has changed after the Suharto regime, which is why it is vital to draw attention to the administration afterward.

Furthermore, this leads to the later period in which the pragmatic government of President Susilo Bambang Yudhoyono has significant international exposure to channel economic nationalism toward the international community. Thee (2011) notes that Yudhoyono's economic nationalism emphasized the robust role of Indonesia as a responsible and constructive member of the international community. The government stated its intention to commit to multilateral economic cooperation, such as ASEAN, Asia-Pacific Economic Cooperation (APEC), WTO, ASEAN-China Free Trade Agreement (ACFTA).

The role of the domestic actor in the Indonesian economy during the Yudhoyono period also marks the more significant part of business activism and collectivism in advocating their interests at the national level. The Indonesian Chamber of Commerce and Industry (*Kamar Dagang dan Industri Indonesia* or

Kadin)², for example, plays an essential part in the new state developmentalism direction under Yudhoyono. Even though Kadin was initially established in 1968 and accorded by Suharto through President Decree in 1973, Kadin was not as active as it is after the fall of the Suharto regime because of the close nexus between the government and Chinese business who received favoritism over indigenous Indonesian (Faisal, 2013).

According to Faisal Basri, a senior Indonesian economist who was affiliated with Indonesian Research and Strategic Analysis (IRSA), in his interview conducted by one of the Indonesian political economy scholars, stated that Kadin has become far more influential as it used to, as compared to the New Order regime under Suharto (Faisal, 2013). The effect of democratization after the fall of the authoritarian regime had rendered difficulties for business interest to influence the policymaking process due to the decentralization of power. Hence, decentralization and regional autonomy made power to be less concentrated. Faisal argues that individual lobbying in the Suharto era makes it easier for business to advocate their business interest in a centralized regime.

During the Yudhoyono era, as the democratic regime has allowed public opinion to put direct pressure toward the government, the business role and business association, and activism became more superficial. For example, Kadin appointed Mohammad S. Hidayat as its chairman in 2004-2009. Hidayat was an Indonesian businessman who was involved in the real estate industry. During his tenure, Kadin had developed Industrial Roadmap that contained a proposal to stimulate industrial performance and investment (Faisal, 2013). As a businessman who was also involved in politics and associated with Golongan Karya (Golkar)³, he was appointed by President Yudhoyono as the minister of industry in 2009-2014, right after his successful chairmanship at Kadin.

² Kadin is considered as an indigenous entrepreneurs-dominated business association (See Faisal, 2013; A. I. J. Hartono, 2011).

³ Golkar is an Indonesian political party which was the ruling party since 1971 until 1999 under Suharto. (See Suryadinata, 2007).

Such an institutionalism approach of channeling business interest through Kadin, for example, has changed the gameplay of business interest groups through a more institutionalized and transparent way. The involvement of Kadin in public policymaking was also getting more significant during the Yudhoyono period. In line with the greater participation of business interest groups in a more democratized country, many mechanisms, including the freedom of speech, have made many business communities realize the importance of business activism in an open space.

Faisal (2013) points out that Yudhoyono had a thoughtful objective in getting businesses to be more involved in the public policymaking process. This is in line with the government's initiative to become more consultative to what business group interests, such as Kadin, requested. Although the government's intervention in the economy has become less apparent, the Master Plan for the Acceleration and Expansion of Indonesia Economic Development 2011-2025 (*Master Plan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia* or MP3EI) – a multi-staged economic plan that aims for Indonesia's economic development – shows how the government was serious in involving relevant stakeholders, including private sectors, to be involved in both short- and long-term economic development (Indonesian Coordinating Ministry for Economic Affairs, 2011, pp. 10-11).

MP3EI was also accompanied by the National Long-term Development Plan (*Rencana Pembangunan Jangka Panjang Nasional* or RPJPN) 2005-2025, as well as four series of the short-term development plan, i.e., National Short-term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional* or RPJMN) – Series I (2005-2009), Series II (2010-2014), Series III (2015-2019), Series IV (2020-2024). However, unlike the RPJPN, RPJMN has a shorter period of four years and is dependent upon the direction to which the president wishes. Therefore, the vision and mission of the president are critical in determining Indonesia's development in the short run.

Moreover, with the enactment of Trade Law No.7/2014 and other trade-restrictive regulations, it indicated Indonesia's stance in protecting its domestic economies from the international competition through non-tariff mechanisms (See

Marks, 2017; Marks & Rahardja, 2012). Other than trade-restrictive measures found in Trade Law, several protectionist laws were also enacted. Those are laws on mineral and mining 4/2009, horticulture 13/2010, food 18/2012, farmers protection and empowerment 19/2013, industry 3/2014, and standardization 20/2014.

The World Bank report in 2012 has documented that there are increased non-tariff barriers implemented by the governments to adapt to the global market uncertainty, including developing countries like Argentina, Brazil, China, India, Argentina, Russia, and Indonesia (Malouche & Oliver, 2012). The Global Financial Crisis in 2008-09 has rendered the global economic recession in emerging economies, not limited to but including Indonesia. Malouche and Oliver argue that the rise of economic nationalism was rational, given the fact that there was increased economic uncertainty. But the most fundamental underline of their argument was, although the gates are closing in the sense of global value chains, the movement of goods and services, however, was constrained by non-tariff barriers instead of tariffs. They further argue that non-tariff barriers implemented aiming for protecting the domestic industry would in turn aggravate the economic problems.

Due to the protectionism trend around the world increased, Indonesia then implemented new product standards for agricultural imports. Based on the analysis derived from the World Bank, Indonesia and other governments were implementing trade-restrictive measures, notably import restriction, while also complying with the WTO guidelines and regional commitments (Malouche & Oliver, 2012).

Whereas Indonesia's politics and economy during Yudhoyono were relatively stable and befitting from the windfall commodity booms, namely palm oil and coal – however, there are many debates and critics against Yudhoyono's economic policy. The critics that are concerned with the fuel subsidies accounted for an enormous deficit and unproportionate subsidy target. Furthermore, critics were also addressed with infrastructure deficits, economic nationalism, and unequal wealth distribution that widened the gap between rich and poor (Hill, 2015).

Hill further argues that the Indonesian economy during Yudhoyono was more reactive than proactive. In the book entitled "The Yudhoyono Presidency:

Indonesia's Decade Stability and Stagnation," it is argued that during the two-terms of Yudhoyono's incumbency, Indonesia's economic policy has been followed by several problems, particularly at the domestic level, although these might be beyond the government's control. These domestic policy environments were characterized by high logistic costs and a less welcoming foreign investment environment, as well as uncompetitive labor. Another distinct feature of Yudhoyono's economic policy was in the agricultural sector, in which the president appointed an official from Prosperous Justice Party (Partai Keadilan Sejahtera or PKS). However, this appointment was fruitless. It only resulted in unproductive agricultural sector management and was prone to corruption (Hill, 2015, p. 289) – unlike Suharto's era when he assigned competent ministers and senior officials who could deal with agricultural development. Furthermore, Hill asserts that the ineffective agricultural sector management was also marked by its focus on rents and import-licensing instead of productivity and growth.

The economic nationalism during Yudhoyono continued when Indonesia was enjoying the commodity boom. Indeed, it has benefitted Indonesia's economy at the macroeconomic scale, but micro-scale politico-economic predicament was also one of the inevitable consequences. Hill (2015, p. 293) underscores that when the exchange rate was appreciated, the Indonesian government responded to this situation by implementing trade-restrictive and restraining investment policies, hence illustrating economic nationalism. The tensions between economic nationalism and liberalism were noticeable within structural and political factors, which increased protectionist pressures (Hill, 2015, p. 294). Protectionism and economic nationalism pressures emerged when the rupiah was appreciated, and the competition on tradable goods industries increased, which is commonly indicated by cheaper imports.

However, SBY generally embraced globalization while also acknowledging the needs of developing the economy. When Mari Pangestu became the minister of trade (2004-2011), she had managed to move Indonesia away from protectionism and adopt a more liberal economy. However, when she was no longer in the position, Pangestu's successor, Gita Wirjawan and Muhammad Lutfi, who was ideologically sympathetic to protectionism, have portrayed Indonesian trade as

a “U-turn” back to protectionism. As a result, the enactment of the 2014 trade law was indicated as the most protectionist trade law in the decade.

Nevertheless, Indonesia’s economic development under Yudhoyono might be progressive, but some argue that economic policies were stagnant, even showed “reverse” to some extent. This is due to the fact that trade law decreed in 2014 was the most trade-restrictive law after the fall of Suharto. In line with this, Marks (2017) and Marks and Rahardja (2012) studies show that the government is always trying to find an alternative way to benefit Indonesia’s economy through various restrictive measures from the line ministries regulations. Despite the fact that protectionism was implemented through non-tariff barriers found in Yudhoyono’s period, which was fueled by global market uncertainty as well as a worldwide recession in 2008, the total number of protectionist measures was not as much as back in the 1980-90s.

2.2.4 Economic Nationalism under Jokowi

The rise of economic nationalism during President Joko “Jokowi” Widodo administration is multifactorial. Some of them can be traced during the presidential election in 2014 and 2019. According to Rusmana, Singgih, and Listiyorini (2018), Schwab (2018), and Dewayanti (2019), when the presidential campaign was being held, Jokowi and his two-time challenger, Prabowo Subianto, had made economic nationalism the main issue during the campaigns – instead of religion, which was expected to dominate the campaign issue (Murray, 2018).

The economic nationalism during elections continued when Prabowo was criticizing Jokowi’s first term in which he warned illegal Chinese workers who had been stealing indigenous Indonesian jobs. Additionally, he also highlighted that Indonesia’s natural resources are exploited by foreigners. Schwab (2018) underlines that Prabowo’s criticism against Jokowi’s past reform on foreign worker regulations, which many firms had requested in order to ease the foreign worker permits, was only a political strategy during the 2019 campaign. Some argue that critics addressed by Prabowo toward Jokowi during the 2019 election were political and intended to seek voters. In his 2017 book, *Indonesian Paradox*, Prabowo writes that Indonesia has been experiencing natural resource outflow due to

mismanagement, wrong economic direction, and oligarchy. He further argues that Indonesia should have been independent of foreign oppression and be self-sufficient (Dewayanti, 2019).

Other studies suggest that economic nationalism during Jokowi's first term, in particular, is due to the deteriorating domestic economy, fueled by global market uncertainty and price decline, followed by decreasing overseas market demand (Negara, 2015; Patunru, 2018). Negara notes that in the first term of Jokowi's tenure, the Indonesian government has implemented various tariff and non-tariff barriers in order to protect the domestic economy in a difficult time. In line with this argument, Schwab (2018) observes that the rupiah's decline and negative trade balance have altogether driven economic nationalism to rise again to protect the domestic economy.

Given the fact that Indonesia's economy had been affected by the reduced demand for global commodities, Indonesia responded to this situation by directing the Indonesian economy inward. Furthermore, the protectionist measures undertaken by the government had two objectives, these are to reduce the use of its limited foreign reserves and protect the domestic economy from heightened competition from imported goods (Negara, 2015).

The trend of rising protectionism is primarily caused by the dissatisfaction with globalization and the rejection of foreign interference; the practice of democracy, whose system allows populist politics to ascend, eventually restores the old kind of protectionist ingredient and archaic mercantilism under Jokowi's administration. In turn, nationalism in the economic realm has been translated as protectionism, which protects domestic industries from foreign competition. It is, customarily, linked with Indonesia's preference in pursuing self-sufficiency and mercantilism (Patunru, 2018).

The rise of economic nationalism during Jokowi has often been associated with its mercantilist approach. As Patunru (2018) argues, economic nationalism adheres to protectionism – like other countries, protectionist policies implemented by Indonesia aimed at protecting domestic industries while also promoting exports and limiting imports. The trade policies under Jokowi are

mercantilist in some sectors, which support exports while limiting imports (Patunru, 2018). To date, in the agricultural industry, food self-sufficiency remains a priority in the Indonesian government's policy objectives in order to nurture resilient growth (Rigod & Tovar, 2019). Non-tariff barriers remain the main leverage to continue protectionism, although these non-tariff barriers such as quotas, import license, export, or import bans are vulnerable to be disputed and disposed to corruption

In his first term, Jokowi's vision to be economically independent was clear-cut. Economic nationalism and autarky were manifested through his presidential campaign of Nawacita or the Nine Priorities Program. This endeavor was apparent when the government nationalized Indonesia's Grasberg copper, the world's second-largest copper mine, after three and a half years of negotiation (Dewayanti, 2019; Suzuki, 2018). Other efforts of nationalizing foreign-owned companies in public goods were also made. For example, the government acquired Rokan and Mahakan oil blocks in Riau and Kalimantan in order to take natural resources back from foreign multinationals to the state-owned oil company, Pertamina (Dewayanti, 2019; Harsono, 2019; Rusmana et al., 2018). However, the government claimed that it has nothing to do with nationalization and was also willing to sell those companies if foreign companies made better offers. Instead, the government insisted that such a nationalization was purely based on economic rationales.

Similarly, after Jokowi had secured its politically sensitive issues on nationalization in tandem with power consolidation through cabinet reshuffle, the economic direction was now departing from statism and nationalism to what Warburton (2016) calls as "new developmentalism." Warburton argues that Jokowi's new developmentalism is pragmatic pro-poor policy agenda that has demonstrated statist-nationalist ideology. While Suharto's developmentalism was characterized to share similar features with Asian tiger countries in the 1980s and was handed over to bureaucratic elites and technocrats, the Jokowi's view on the economy by way of achieving fast-paced economic development is conservative in which it might have posed institutional challenges from politically sensitive issues like a land concession, law reform, corruption, and good governance.

Aside from an economically reasonable argument, political pressure also became the public discourse, demanding protectionist regulations from the government. In this regard, political parties and business interest groups were the key domestic actors whose functions advocate protection from the government. The economic downturn after the GFC has indeed triggered political pressures to support domestic industries and keep jobs for millions. Other than political parties and business interest groups, complex bureaucracy, local governments, and trade unions are the domestic actors that Jokowi has to accommodate (Negara, 2015).

Trade unions and business groups articulated their political pressure through demonstration and lobbying. The first issue raised by them was to reject the government's policy in easing foreign workers' permits, particularly foreign workers from China. They claimed that foreigners would have impaired many Indonesian to lose their jobs. Negara also reports that business interest groups have been successful in lobbying the government to protect them from the heightened foreign competition.

With regard to business interest in supporting the government's projects, Parker (2019) finds that whichever companies can link their business to Jokowi's policy goals, the president will help them – particularly those who can invest and innovate in skilled jobs and support Indonesian infrastructure project. This is also in line with the longer-term strategic initiative rendered in the MP3EI, and it has been adjusted to Jokowi's vision when he started his first term presidency in 2014. To help to extend the economic plan, which the previous administration had already set, Jokowi had developed Nawacita into the National Mid-term Development Plan (RPJMN), which consists of three main areas, i.e., national, sectoral, and regional development agenda. Besides, it also addresses the global agenda to which the RPJMN integrated development agendas, such as inequality, sustainable energy, anti-corruption, and south-south cooperation (UNDP Indonesia, 2015).

According to the analysis from the World Bank, these protectionist policies are a natural response from the government during economic hardship. However, non-tariff barriers which involved non-market rationality and political pressures would only render detrimental economic problem even healthier

(Malouche & Oliver, 2012). Followed by the same argument, World Bank perceives that economic nationalism and the implementation of non-tariff barriers are inefficient to the economy on the macroeconomic scale. Not only does protectionism increase costs for the traders, but it also impedes the end consumer from buying from the most efficient suppliers. The World Bank report has disclosed that in most cases, non-tariff barriers are the source of government's income in which licensing-related rents are derived from sizeable politically-connected industry players (Malouche & Oliver, 2012).

The promise of Jokowi to the public during his presidential campaign to bring Indonesia's economy to go up to 7% per year has yet to be realized. As reported by Hendrick-Wong (2018), a senior Chief Economics at Forbes Asia, there are several vital impediments that explain why Indonesia was lagging behind compared to other Asian countries, particularly in the post-Asian financial crisis. Such factors, according to Hendrick-Wong, are a combination of complex bureaucracy and overlapping central and local regulations, and insufficient infrastructure. Hendrick-Wong then further quarrels that economic nationalism and rent-seeking are the challenges that Jokowi currently has to face. In the first term, Jokowi promised to be more open toward foreign investment and would address anti-foreign nationalism in Indonesia's political economy. Jokowi then openly forced his cabinet to immediately reform this issue after getting infuriated because of his cabinet's poor-performance (Cahyani, 2018).

Despite several economic reforms that have been undertaken by the government were designed to be more open with foreign investment, Indonesia is still facing many issues to attract foreign investment, primarily caused by corruption and regulatory barriers (Schwab, 2018). Such regulatory barriers were also the case when the World Bank found that most of the implementation of non-tariff restrictions was designed to achieve legitimate policy objectives, such as protecting the health and safety of the population (Malouche & Oliver, 2012).

However, Hendrick-Wong argues that economic nationalism works "hand-in-glove" with rent-seeking. When large firms have gained a privileged position, they tend to support economic nationalism. According to an Indonesian economist,

Arianto Patunru (2018) argues that economic nationalism with the use of non-tariff barriers such as quotas, import licenses, or export bans are prone to corruption. The non-tariff restrictions imposed have increased from 9 percent in 2011 to 35 percent in 2016. Such non-tariff barriers in the context of Indonesia, where the phenomenon of “protection for sale” is no longer a surprise, can be obtained by the highest bidders or the cronies who can exchange benefits with the government, as Patunru put forward. This has not only hindered the foreign investment, which the government sought to increase, but also impeded domestic economies to be fully competitive. Rent-seeking is anti-competitive. Thus, firms that grow under the protection are less efficient compared to those who can compete in an open market.

The increased public pressures demanding protection have also forced the state as the regulator to act accordingly. As a result of protectionist measures driven by economic nationalism, this sends negative signals to potential investors (Negara, 2015). Jokowi might have increased his domestic popularity because Jokowi is a populist-protectionist figure, as he has chosen inward-looking economic and trade policies (Patunru, 2018). Even though several protectionist regulations came into force under Yudhoyono, Jokowi has received the previous administration’s legacy and seemed to intensify protectionism in regard to the international trade blueprint in particular. This was partly caused due to the failure and inefficiency of the Doha Round of the WTO. Furthermore, many have suggested that Indonesia’s international trade patterns, particularly of agricultural-based export commodities, are linked with its geopolitics and political, economic strategy of self-sufficiency under the framework of economic nationalism.

CHAPTER 3

RESEARCH METHODOLOGY AND CONCEPTUAL FRAMEWORK

3.1 Conceptual Framework

Based on the theoretical foundation established in the previous chapter, where Putnam (1988) has offered two-level game analysis and has been justified by Paarlberg (1997) in his work entitled *Agricultural Policy Reform and the Uruguay Round: Synergistic Linkage in a Two-Level Game?*, and extended by Yee (2004) in his analysis of US-China two-level negotiation; the author, therefore, will employ the two-level game analysis on Indonesia's political economy, which will capture the dilemma between domestic politics and the compliance with the WTO rulings as a case study.

It is believed that the realist assumptions on the international political economy heavily emphasize the predominant role of the state in the international system, thereby disregarding the role of the domestic actors, social struggles, and other domestic movements. On the other hand, liberalism offers a different approach in understanding political economy – although both are on the same page, particularly when it comes to the national interests, albeit complex and unstable relationship (Kelly, 2015). Realism treats the state as a unitary rational actor who pays less attention to domestic affairs. On the other hand, liberals argue that there are a strong correlation and heightened concurrence between international and domestic affairs, which effectively affect the decision-making process.

However, since the political economy analysis of international and domestic interactions will be employed in this thesis, the focus of international-domestic interactions in the IPE has been a significant discussion among scholars (See Cohn, 2012; Hertog, 2008; Olper, 1998; Ostry, 2004; Paarlberg, 1997; Putnam, 1988; Yee, 2004). The term linkage politics was introduced by James Rosenau, one of the earliest scholars who has drawn much attention to the linkages between domestic and international politics. Rosenau further explains that there will likely be a “conflict behavior” between domestic and international politics. Moreover, the

agreement at the international level is often associated with the aims of achieving domestic economic welfare through international trade.

In any case, the increasingly complex relationship between domestic and international actors has allowed many perspectives to come into place to explain the multifaceted political-economic reality. While there seemed to be competing theories within IPE, mainly realist and liberalist perspectives, the circulating body of literature appears to subdivide the perspectives and frame one perspective as anti-ethical to another (e.g., Garrett, 2009). On the one hand, other scholars, particularly those who are involved within the IPE, were oftentimes criticized for weighting too much to either economy or politics. Cohn (2012) has argued that IPE scholarship, as an interdisciplinary subject, must devote its attention to the links between domestic and international.

The domestic groups are typically generalized as part of the decision-making process within the national government, particularly one related to the 'international security' issues, which is frequently associated with the national interest. However, the domestic constituent in the decision-making process of security affairs tends to share a homogenous interest. On the other hand, this is not the case in trade issues in which one particular industry might have competing interests, whereby domestic actors have a heterogeneous interest. Because power has been widely diffused, these domestic groups play an extensive role in the international economy, which also intersects with international trade and foreign investment. Whereas multinational corporations, business interest associations, and trade unions have been integral to international trade, their role in configuring trade policy is therefore called the 'bread and butter,' which would affect their economic welfare. However, the existence of international trade is widely acknowledged by some critical theorists that it will harm the state's sovereignty and has adverse effects on the dynamic of domestic politics, particularly of those who are not competitive enough.

While the idea of economic nationalism is often referred to as a mercantilist approach and isolationist, and realism to some extent, Patunru (2018), D'Costa (2012) and Helleiner and Pickel (2005) suggest that economic nationalism

does not necessarily mean to be anti-thesis of economic liberalism. The idea of nationalism in economic policy can also be seen in a broader approach that also includes an endorsement of liberal economic policies (Helleiner, 2002). Thus, this ideological content of nationalism does not challenge economic liberalism goals. The prominent scholar such as Helleiner has underscored that economic nationalism might be challenging for economic liberalism at the theoretical level. However, the reality and the practice per se have been significant for supporting economic liberalism policies (2002, p. 308).

Similarly, the idea of embedded liberalism is offered by Ruggie (1982) to perceive an alternative approach of the global structure in which the state is deliberately conducting negotiation and accepting agreements at the international sphere while at the same time retaining its sovereignty to autonomously manage its domestic affairs. In another study, Vincent (1997), however, points out the dangers of nationalism that could be a possible threat to the established liberal world order.

However, in the recent decade, nationalism has reemerged, either in terms of political identity or economy (which was explained in the previous chapter). Thus, it created a new compound of 'liberal nationalism' amid economic nationalism, a concept of which the Indonesian government pursues. Vincent (1997) and Patunru (2018) have drawn a similar conclusion that the characteristic of neo-nationalism is a combination of pragmatism and ambivalence, which makes liberal nationalism is the most acceptable form in the established global liberal institutions.

Therefore, to autonomously regulate its economic affairs, Indonesia remains to be implementing favorable policies and protective measures toward domestic producers, in this case, the poultry industry and the chicken sector in particular. However, Jakarta wanted to continue developing the poultry sector as it is contributing to a large number of workforces. The foreign presence, however, seemed to be one of the barriers to improve the sector optimally. On the other hand, while Indonesia is committed under the WTO law, the embedded liberalism and liberal economic nationalism have rendered Indonesia's ambivalent approach in complying with the WTO laws and requirements. Consequently, it has made Indonesia

situated in a ‘tying hand’ where the domestic demand has created a persistence point against the international commitment to some extent.

To illustrate this complex situation and to further argue by using the conceptualized framework that aims for a comprehensive analysis, the author will employ a two-level game analysis; given that Indonesia is pursuing economic nationalism as its main trade policy objectives by favoring local producers to make them competitive in the world market, while at the same endorsing embedded liberalism and liberal nationalism. These two concepts have demonstrated Indonesia’s international negotiation pattern and behavior, that is, ambivalence. Despite the fact that the economic nationalism has resulted in a trade dispute with Brazil, which has been brought to the WTO, Indonesia is still obliged to conform to the WTO laws, including its principles of ensuring trade liberalization and multilateralism.

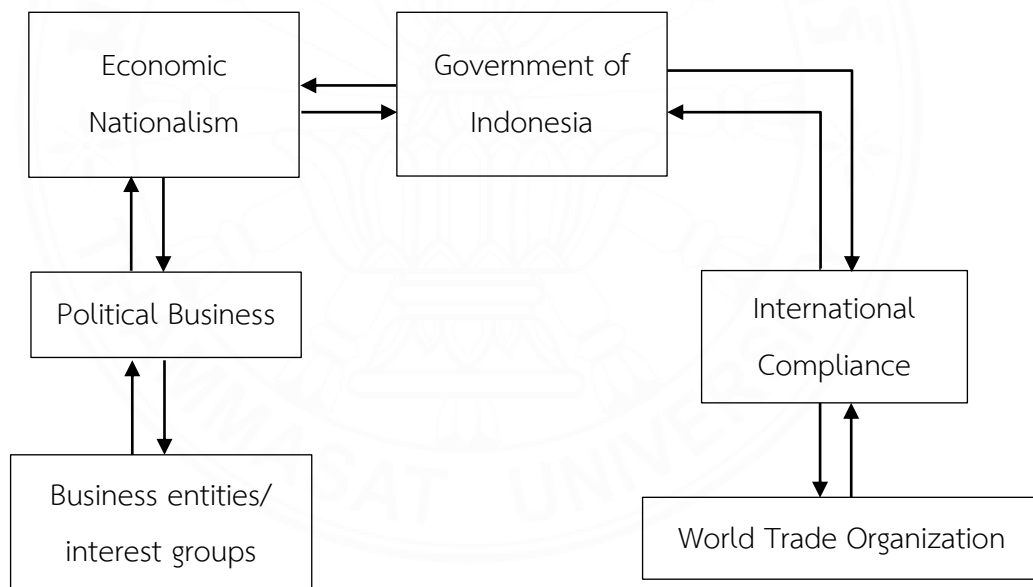


Figure 3.1 Indonesia’s Two-level Game: A Dilemma between International Compliance and Economic Nationalism

Source: Adopted from two-level game theory by Putnam (1988)

Cohn argues in his book entitled “Global Political Economy” that domestic-international interactions could not be assessed in a single perspective of IPE (p.90). Similar to Putnam’s two-level game, the analysis could be accompanied

by other perspectives as well. Thus, the offered framework above will be effectively suitable to explain the political economy circumstances in Indonesia regarding the chosen case study, where Indonesia had to deal with two-directional pressures.

In dealing with international and domestic pressures, the central decision-makers have been inclusively accommodating the interests coming in every possible direction. As Putnam has emphasized in his writing, the state per se is comprised of central executives who mediate domestic and international pressures because they involve in both arenas. This suggests that *the state* should not be treated as an individual noun within the international context; instead, *the state* should be regarded as a plural noun, as they also account for domestically accumulated interests. This way of perceiving the state not as a constant variable is derived from the criticisms against the state-centric analyses, as they have failed to provide the underlying justification on the interactions between domestic and international politics.

3.2 Research Design

Addressing an exploratory research question, this thesis will apply the case study research method. As a formal research method, the case study is used to investigate contemporary phenomena (the 'case') in-depth and within their real-world context (Yin, 2018). Although the researcher does not have control over the behavioral events, the strength of this thesis will emphasize its very disposition, where it focuses on contemporary events. Therefore, the author will conduct a direct observation of the event as well as a semi-structured interview with the involving actors.

However, the use of a case study as a research method is the leading means to explicate the decision or set of decisions as to why the research question at the beginning itself is inquired. Referring to the research question, "in what way does the business influence the government..." this "why" set of questions is asking on the decision-making process that might involve the negotiation, result, and implication. Schramm (1971) acknowledges that the decision-making process is the

locus of case study research, in which he emphasizes historical and political science approaches to obtain a holistic view. Schramm underscores that case study research deals with its “...genesis and its apparent effect, or more often, with the reason for, the execution of, and the apparent effect of the entire project.” In other words, Schramm emphasizes case study research as the study of ‘decision’: how and why that such decision was taken, and what is the result of that such action. While the complex reality is being studied, a case study helps the researcher, particularly in social science, to manage the events into a foreseeable pattern and perhaps gain some insights (Schramm, 1971).

3.3 Sample and Setting of Study

The target populations of this thesis are chosen through purposive sampling. This sampling is utilized considering the role and the influence of the key actors and participants in the dynamics of Indonesia’s poultry industry, including its political economy and the decision-making process. These participants were thus selected based on the judgment of this particular thesis to serve the purpose of this subject. Furthermore, the key actors and institutions involved in the process are in the following: The government of Indonesia that includes line-ministries such as the Ministry of Trade, the Ministry of Foreign Affairs, and the Ministry of Agriculture; trade unions such as the Indonesian Poultry Farmers Association (*Perhimpunan Insan Perunggasan Rakyat Indonesia*, or PINSAR Indonesia); business interest associations such as the Indonesian Feed Producers Association (*Gabungan Perusahaan Makanan Ternak* or GPMT); and research institute that advocates the rights of poultry farmers, such as Center for Food Agriculture and Advocacy Study (*Pusat Kajian Pertanian Pangan dan Advokasi*, or PATAKA); and selected persons from few dominating poultry firms such as PT Japfa Comfeed Indonesia Tbk., PT. Charoen Pokphand Indonesia Tbk., PT Malindo Feedmill Tbk., PT. Sierad Produce Tbk., and PT Wonokoyo Jaya Corporindo Tbk.

3.4 Data Collection and Instruments

The author conducted a semi-structured interview as one of the data collection methods for this thesis. By targeting suitable participants, the interview questions will be asked to confirm the data required to have a comprehensive and concluding statement for this sole purpose of research. However, the possible sensitive information contained during data collection justifies the semi-structured interview to be selected as the data collection method (Carter, Bryant-Lukosius, DiCenso, Blythe, & Neville, 2014). Other sources of evidence will also be derived from documentation, news, archival records, direct observations, speeches, and other relevant sources. The multiple data collection method can be complementary to each other to fulfill the required information for this thesis. Therefore, aside from having primary sources from the interview, this research will be complemented by secondary sources; hence, it will employ data triangulation.

3.5 Data Presentation and Analysis Plan

This study will present and analyze the collected data in accordance with the theoretical proposition and the established conceptual framework, which has been modified into the subject of this thesis. Thus, the proposition of the theoretical framework will help to organize the orientation of this case study analysis. Once the data from the key-informant participants have been collected, it will help to extend the theoretical proposition that has been established (Yin, 2018). As this study is using multiple data collection methods, data triangulation will be used to analyze the chosen case study to further explore the theoretical framework in a real-world situation. In order to understand the context of the collected data, content analysis will be used to find a conclusive statement and to interpret the findings into a solid discovery.

3.6 Ethical Consideration

To avoid a sensitive data enclosure, the author will request permission and authorization for copies of data, papers, or interview results to what extent the data can be revealed to the public as for the advancement of the knowledge. If key informants and participants, as per request, would not like to be disclosed, then the author will conceal their personal information.



CHAPTER 4

INDONESIAN POULTRY: FROM THE INTERNATIONAL TO THE DOMESTIC LEVEL

4.1 Political Economy of Agricultural Trade

Agricultural trade under the GATT framework has attracted extensive debate and criticism. Although the WTO per se is committed to undertaking international trade liberalization, agricultural issues however remain to be the most contentious ones. The Agreement on Agriculture (AoA), for example, has ruled the international agricultural commerce. It focuses on reducing the trade-distorting effect from the subsidies given by the state to the farmers. The AoA covers three main principles on agricultural issues: domestic support, market access, and export subsidy. Among three principles, market access is one that has been prioritized, whereas the other principles have been marginalized (Gonzalez, 2002). It demonstrates that there is a somewhat asymmetrical relation among these three principles, whereby the market access is regarded as the most important one to which countries would have invested their political and economic resources if one happened to engage in a trade dispute.

Affordable price in the world's price does not reflect on the level of efficiency. Rather, it resulted from the subsidy. OECD countries have extensively supported their farmers through different schemes (Clapp, 2006), i.e., the green box, which has no trade-distorting effect; amber box, which has a trade-distorting effect by subsidizing production; and blue box, which limits the production and does not have a direct impact to global agricultural trade. Subsidies given by developed countries, in turn, resulted in unfair competition vis-à-vis developing countries and an unequal playing field (Clapp, 2006; Gonzalez, 2002; Sawit, 2003). There is a different level of subsidies tolerable by the AoA, which allows a developing country to give 10% subsidy and 5% for a developed country. Virtually, subsidy intended to provide domestic support is permissible under the AoA.

This is because the developing country is at a different, somewhat lower, stage in terms of economic development, technology, infrastructure, and human resources. As a result, a developing country has limited preferences in coping with the unfair agricultural agreement. The fact that net-exporter countries have been vocal to advocate the opening of market access under the AoA framework has exacerbated the condition of other developing countries, especially Indonesia, whose competitive advantage is no longer the leading agricultural exporter. Therefore, in opening market access, one country must deal with the tariff regime, tariff reduction, and tariff bound. However, it is not the case in Indonesia, where non-tariff measures are the main instrument to limit foreign market access (Patunru & Rahardja, 2015).

4.1.1 Indonesia and the WTO

According to the WTO Country Profile in 2017, Indonesia's total exports and imports in agriculture comprise 29% export and 15% import. **Figure 4.1** shows that there is a disparity of export and import activities in agricultural products. The total of import agricultural products is less than its export. In the poultry industry, for example, export and import are virtually nonexistent because local producers have been able to supply the domestic demand and have been experiencing oversupply (Ferlito & Respatiadi, 2018; Nugroho, 2020). In the report of Trade Profile of Indonesia, the total of international trade accounts for 19% of its total GDP in 2016-2018. However, the data of export in 2017 shows the manufactured product remains to dominate its export share, which accounts for 41.9%, and agricultural products come in second place, accounts for 29.2%, and fuels and mining products, 27.8%. Meanwhile, the breakdown of the Indonesian economy in terms of total imports shows that Indonesia is mainly importing manufacture, which accounts for 61.4%, fuels and mining products 22.4%, and the lowest import share, agricultural products 15.1%.

Despite the fact that agricultural products in Indonesia are virtually adequate to feed the population, which consists of 270 million people, inefficiencies in the distribution system across the archipelago remain an issue that results in

increased price in remote places and the poor (Di Nunzio, 2013). Indonesia has also dropped its competitiveness in the international agriculture market. The production cost is higher than the global market, thus lessening its competitiveness due to the high cost of goods manufactured. For instance, poultry production is mainly focused on the domestic market because producers need to import high-priced corn.

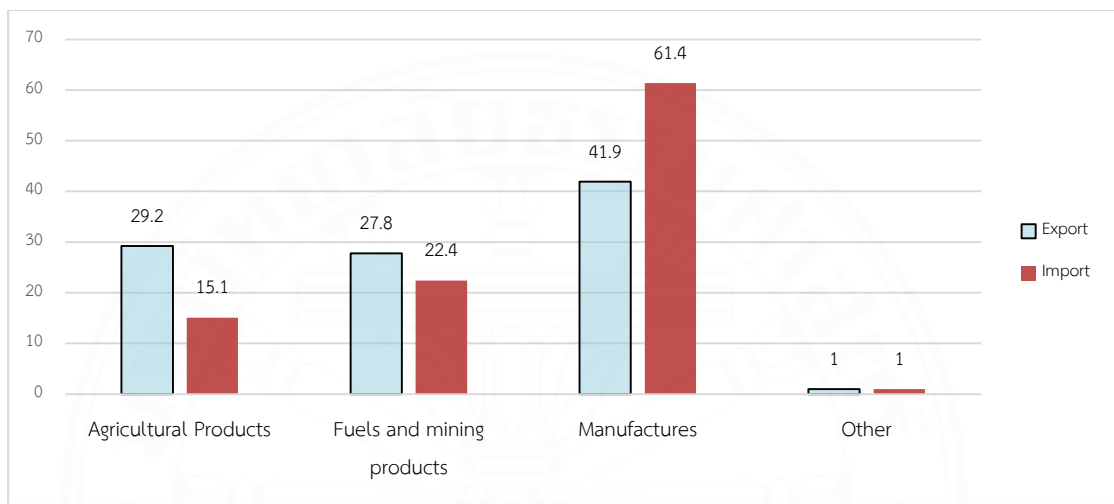


Figure 4.1 Breakdown of Indonesian economy's total exports and imports, % (2017)

Source: WTO Country Profile (2018)

In the WTO, Indonesia is one of the 'global swing states' – among other countries, i.e., Brazil, India, Turkey. Hillman (2012) defines the global swing state as a country that has a significant extent in the international trade arena. Although the global traderegime has been predominantly stirred by global north countries, global swing states have altered the predominant role of developed countries, where developing countries perceive that the WTO system is tilted to be in favor of developed countries and multinational corporations. Because the neoliberal agenda is championed in the WTO negotiation, the Doha Round deadlock has underlain an unfair global trading system, marginalizing the rest of developing countries. As a result, global swing states have contributed to the further polarization within the WTO members.

Other global swing states, for example, have been articulative in putting forward their interest in international trade, particularly in the agricultural

sector. Brazil is one of the countries that has defended its stake in an 'offensive' manner (Hillman, 2012). Among global swing states, Brazil, as the largest economy in South America, is expected to work closely and strengthen the economic ties with Indonesia, particularly in agricultural and high-tech sectors (Yulisman, 2011). As Brazilian agribusinesses have become an agro-industrial export powerhouse, their influence is also known for its alliance/partnership with the government that aims at increasing export based on shared interest and ideology (Hopewell, 2013).

On the other hand, Indonesia is utilizing its developing country status to attain the special and differential treatment as granted by the WTO (The Jakarta Post, 2020). Indonesia is seeking more favorable treatment to obtain exceptions to tariff cuts. However, Indonesia maintains a relatively low profile in the international trade arena. Indonesia, and other G33 countries, seemed to be consistent in protecting their agricultural interest and non-trade concerns in international trade through various measures (Hawkes & Plahe, 2013). Indonesia argued that it is the state's prerogative rights and sovereignty to impose a liberalization policy in a flexible space, so long as it will benefit the domestic needs. Like any other country, the way in which Indonesia perceives international trade as an instrument is envisioned to increase domestic economic welfare.

Protection to the domestic agricultural sector, however, has induced a prolonged conflict in international trade. Most measures were intended to achieve self-sufficiency. As stipulated within various legal instruments, food import is restricted unless domestic production is not sufficient. Therefore, Indonesia's self-sufficiency legal instruments are/were challenged by other nations and disputed through the WTO dispute settlement due to its trade-restrictive effects. Aside from Brazil's trade dispute concerning chicken, Indonesia was also challenged by the US and New Zealand regarding horticultural products.

Table 4.1

Dispute Cases Involving Indonesia

No	Status	Case Tag	Official Case Name	Result
1	As complainant	DS480	European Union — Anti-Dumping Measures on Biodiesel from Indonesia (respondent: the EU)	WTO granted Indonesia's claims asserting that the EU had been inconsistent with the WTO laws. As a result, the Panel report circulated in January 2018 and adopted in February 2018, resulting in the winning of Indonesia.
2		DS593	European Union — Certain measures concerning palm oil and oil palm crop-based biofuels (respondent: the EU)	Ongoing – consultation requested in December 2019. The panel requested in March 2020.
1	As respondent	DS455	Indonesia — Importation of horticultural products, animals, and animal products (complainant: the US)	The US requested consultation, and Australia, Canada, and the EU sought to join. The panel was established in April 2013.
2		DS465	Indonesia — Importation of Horticultural Products, Animals, and Animal Products (complainant: the US)	New Zealand, Canada, the EU, and Thailand requested to join the consultation. In consultation in August 2013.
3		DS466	Indonesia — Importation of Horticultural Products, Animals and Animal Products (complainant: New Zealand)	Consultation requested in August 2013.
4		DS477	Indonesia — Importation of Horticultural Products, Animals and Animal Products (complainant: New Zealand)	The panel was established in March 2015 and composed in May 2015. The complaining party disputed 18 measures concerning Indonesia's import licensing regime resulting in Indonesia's loss defending halal as a food security issue.
5		DS478	Indonesia — Importation of Horticultural Products, Animals, and Animal Products (complainant: the US)	Co-complainant. The panel found that Indonesia violated 18 measures under the WTO agreements. Indonesia decided to appeal and requested a reasonable period of time. The Indonesian government has adjusted its regulation in the latter.
6		DS484	Indonesia — Measures Concerning the Importation of Chicken Meat and Chicken Products (Complainant: Brazil)	Australia, Chinese Taipei, the EU, New Zealand, the US joined the consultations. The panel found that Indonesia's measures were inconsistent with the WTO laws and perceived the measures implemented are restrictions on imports. However, Indonesia invoked defense, claiming that it is related to halal and food security issues.
7		DS506	Indonesia — Measures Concerning the Importation of Bovine Meat (complainant: Brazil)	Ongoing – Brazil requested consultation in April 2016. Brazil claims that there are five measures imposed by Indonesia that are inconsistent with the WTO laws.

Source: WTO Member Information – Indonesia and the WTO (2020)

As shown in **Table 4.1**, from 15 cases in which Indonesia was the respondent, seven cases are agricultural-related. This implies that several regulations concerning agricultural products were/are challenged by the international communities. Given Indonesia's reluctance within the agenda of trade liberalization, many of its legal measures were trade-restrictive and posed a significant threat to the global trade regime. The trade-restrictive measures taken by the government then have resulted in a considerable number of confrontations. Import license regimes were also found in many cases, which were followed by complaints from other countries that are against Indonesia's trade-restrictive measures (Ahn & Gnutzmann-Mkrtchyan, 2019). Despite such legal responsibilities that Indonesia has to carry, many protectionist measures were implemented because of the ambiguity found in the agreements, which, in turn, turned the WTO into a forum for the politics of protest (Hillman, 2012).

Aside from actively defending its trade interest at the international level, particularly concerning clove, tobacco, cigarette, paper, Indonesian agricultural, and food-related commodities, Indonesia's legal measures on agriculture have been challenged due to its inconsistency with the WTO laws. Indonesia is also often citing food self-sufficiency to justify its trade and agricultural policies (Ahn & Gnutzmann-Mkrtchyan, 2019). Moreover, the halal requirement is also one of the reasons why Indonesia imposed such trade-restrictive measures, followed by other technical requirements to ensure people's health and safety regarding the importation of foods. Given the fact that the majority of the population are Muslim, it thus emphasizes religion and public health concern as a determining factor in international trade.

4.1.2 Food Self-sufficiency vs. Food Security

It is vastly acknowledged that agricultural products and policies have been politicized (e.g., Hamilton-Hart, 2019). Trade liberalization in terms of agricultural products has never been easy for any developing country. Although there are some initiatives to industrialize the country, moving from agricultural-based to manufacture-based country, only very few had succeeded – South Korea and Japan, or East Asian Miracle is one exception. Because the agricultural sector

contributes to 40% of the Indonesian population's income (OECD, 2012), achieving self-sufficiency is, therefore, the primary food-related policy and the main political agenda addressed by the government (Limenta & Chandra, 2017).

However, there is a prolonged debate on whether food self-sufficiency is a means to achieve self-sufficiency or vice versa, or if the former is complementary to the latter (See, for example, Clapp, 2017). A widely accepted, though debatable, concept of food security comes from the Food and Agricultural Organization, which is defined in the World Food Summit 1996 as "food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life" (FAO, 2006). Put it in another way, the concept of food security has four following dimensions: (1) Food availability. It focuses on the level of sufficiency at which one nation-state could ensure its food supplies, based on both quality and quantity; (2) Food access. It refers to the accessibility of individuals to obtain food according to each's diet and nutrition within the framework of legal, political, economic, and social arrangement; (3) Utilization. It refers to the degree to which individuals can utilize their food to meet nutritional needs, including clean water and sanitary and health care; and (4) Stability. It combines the dimension of availability and access in which individuals must have access to food regardless of the unprecedented time of crisis.

However, the debate between food self-sufficiency and food security arises among global south countries whose farmers are net-exporters and also consumers. Unfortunately, the food security concept, as proposed by the FAO, does not take into account which the food providers or suppliers are. It is because self-sufficiency is a non-trade concern and political. In accordance with the Doha round mandates, the agricultural negotiations must account for rural development, food security, and poverty alleviation – which are also the goal that has received criticisms from the global north, contending that the WTO is not an international aid agency. Therefore, the food security concept suffers a theoretical crisis due to its insufficiency to include an inclusive political economy aspect with respect to actors that supply foods.

Grochowska (2014), for example, is one of the scholars who introduce ‘wicked problems’ in the food security concept. The introduction of the wicked problem concept in food security represents the challenges it poses in which the core definition among stakeholders has yet to be agreed upon and acknowledged in terms of approach, problem-solving, and formulating policy. Wicked problem attributes a new and unique characteristic in which a solution might not be applicable to other issues, making it impossible to repeat the same answer. It also suggests that there is no right or lousy solution to cope with food security.

The conception of food-security is also deemed as the antithesis of socialism (Morelli, 2004), which reinforces the role of the state in providing an adequate food supply for its people as well as being self-sufficient by protecting and prioritizing the farmers in a country in which they live. The food security concept is also used as an excuse for the government and large agribusiness in perpetuating neoliberal interest because of its exclusiveness toward small farmers (Grochowska, 2014).

Food self-sufficiency, on the other hand, is often presented as a direct opposite of international trade (Clapp, 2017). By extending the foods self-sufficiency and food security concepts, Clap further argues that self-sufficiency is a political objective that would be beneficial in times of global food supply chain disruption, sudden and sharp price increase, or production shortage in other countries because one that adopts self-sufficiency would be insulated from global economic integration. Moreover, self-sufficiency is an autarkic goal aimed at increasing domestic farmer welfare under a broader economic strategy. However, the extensive debate also goes to the realm of politics and economics in which many economists often view self-sufficiency goal as the policy that prioritizes political objectives in lieu of efficiency, which could lead to national inflation and domestic inefficiency, thus exacerbating food insecurity.

In line with Supachai Panitchpakdi’s speech (2005), former Director-General of the WTO stated that “self-sufficiency, which advocates protectionism and isolation from the world market, has never been in the answer. However, the best way to achieve food security is to involve in an economically integrated and

politically interdependent world.” Self-sufficiency would also lead to higher production cost and makes food less affordable in the long run, making it counterproductive and illusory goal. Self-sufficiency also goes hand-in-hand with self-reliance rhetoric and domestic production prioritization, which could have resulted in price volatility due to many inefficiencies embedded within. However, food insecurity also goes beyond the developing country that also occurs in advanced capitalist nations. As Long, Gonçalves, Stretesky, and Defeyter (2020) argue, food insecurity in developed capitalist nations was caused by both economic inequality and neoliberalism.

Notwithstanding Indonesia’s commitment to achieving food security in the long term, the self-sufficiency policy aims to prioritize domestic production by 90% (Ministry of Agriculture, 2018). An ambitious goal of self-sufficiency would not have happened without the enactment of legal instruments to provide a legal basis to achieve such political objectives. To address this concern, Indonesia has combined two concepts of food self-sufficiency and food security in the national food law 2012.

4.1.3 Legal Instruments to Achieve Self-sufficiency

Many believe that implementing self-sufficiency is the most politically viable policy to achieve food security, although it might be costly and inefficient (Limenta & Chandra, 2017). In achieving the efficacy, Indonesia has enacted various legal instruments to support the realization of political-economic sovereignty in terms of food self-sufficiency to autarkically govern itself without relying on foreign actors. Moreover, Article 33 in the constitution reinstates national-statism economic ideology in regulating natural resources by articulating unity and hierarchy as its central component (Chalmers & Hadiz, 2005). The underlying principles in the constitution entail at least two meanings: economic democracy and just income distribution – principles of which are contested by different perspectives attributed in contending political spectrum. Therefore, the role of the constitution in the framework of economic policymaking is principal. It underlies the basis of economic philosophy in which the constitution has the highest legal normative level.

Given the strategic geographical structure that makes Indonesia one of the best agricultural producers in the world, the government has prioritized the agricultural sector since its independence through various manifestations, including self-sufficiency. The manifestation of Article 33 of the Indonesian constitution legitimizes the rights of the state to have the legal capacity to control land, water, and natural resources, in the name of social welfare. This was realized into a three-year agricultural production plan through the Ministry of Food in 1948. The program was then succeeded by Kasimo Welfare Plan 1952 by pursuing a higher degree of rice self-sufficiency (Limenta & Chandra, 2017; Mears, 1984).

The program of self-sufficiency was then continued in Suharto's era through Five Year Development (Repelita). The government also formed the Indonesian Bureau of Logistics (Badan Urusan Logistik or Bulog) in 1967. As was mentioned previously, Bulog was granted monopoly rights on export and imports of various staple foods, as well as to control price stability due to the failure of the Kasimo Welfare Plan in the previous administration. Suharto's administration then was able to achieve rice self-sufficiency. However, self-sufficiency as a concept has been extended when Suharto redefined the concept of self-sufficiency in the 1980s by including rubber, palm oil and cacao, and poultry for domestic consumption (Limenta & Chandra, 2017; OECD, 2012).

Nevertheless, the fall of Suharto has diminished the state's intervention, followed by external pressure by the IMF to deregulate and liberalize Indonesia's economy. Extreme liberalization was undertaken, including food-related regulations. Bulog monopoly rights were removed, thus allowing private enterprises to be involved in agricultural trading. Although the administration has changed, agricultural policies remain to be primarily driven by self-sufficiency goals, food consumption, product diversification, value-added, competitiveness, and farmers' welfare.

In recent times, the agriculture policymaking process was more complicated than ever. Global economic integration and agricultural liberalization under the framework of neoliberal AOA have a rather challenging political-economic impact on the nation-state. At the same time, a linkage between international law

and national or domestic regulation has also become issues of which the state and all relevant stakeholders have to address.

The food-related regulations that directly deal with international trade took into effect as per the issuance of Food Law 18/2012 and Trade Law 7/2014 during Yudhoyono's administration, which is followed by protectionist measures and a nationalistic approach. As Patunru and Rahardja (2015) put it, Indonesia's trade law stipulates neomercantilism and anti-consumer stance. This claim can be seen from three main articles as shown in the following **Table 4.2**.

Table 4.2

*Indonesian Food Law and Self-sufficiency*⁴

Food Law 18/2012	
Article 14	(1) Sources of food supply originate from domestic food production and the national food reserve. (2) In terms of food supply as intended in paragraph (1) is not sufficient, food supply can be fulfilled by importing according to the needs.
Article 36	(1) Food import can only be done if domestic food production is not sufficient and/or cannot be produced domestically. (2) Staple food import can only be done if domestic staple production and national food reserve are not sufficient. (3) The minister or government institution determines the sufficiency of national staple food production and government food reserve that deals with governmental order in the food sector.
Article 39	The government will determine the food import policy and regulations that do not negatively impact sustainable farming, production enhancement, the livelihood of farmers, fishers, fish farmers, and micro and small food business.

Source: Indonesia's Food Law 18/2012

According to Limenta and Chandra (2017), the articles above stipulate a nationalistic approach and protectionist attitude, which effectively affect vis-à-vis its international trading partners. This law also authorizes the prioritization of domestic

⁴ This document is an unofficial translation provided for reference only. See extwprlegs1.fao.org/docs/pdf/ins139381E.pdf

production by 90% and a greater state's control of food reserve and supply. Article 36 demonstrates that food supply is not determined by the market mechanism; rather, the government will fully control the sufficiency. Articles 14 and 39, on the other hand, exhibit a greater state control in regulating food policy, which is sourced from domestic production, disregarding import as a more efficient instrument.

The nationalist approach and protectionism also come from the trade law that was legislated at the end of Yudhoyono's tenure. This very law was the first trade law enacted after Indonesia had been using the product of law from the Dutch colonial administration in 1934. This law is a breakthrough in terms of the legal-formal aspect in accommodating trade interest. During the drafting and legislation process, many political parties had put forward a heated debate in which the growing concern was related to Indonesia's international trade position vis-à-vis international trading partner. As for the result, the legislation has resulted in a more populist nuance, which is also referring to the Pancasila and Constitution Article 33. It was therefore a historical moment for Indonesia to independently provide a legal basis for trade-related regulations.



Table 4.3

*Indonesian Trade Law and Economic Sovereignty*⁵

Trade Law 7/2014	
Chapter IV, Part 8, Article 25	<p>(1) The Government and Local Government control the availability of basic needs goods and/or important items in the entire territory of the Republic of Indonesia at sufficient quantity, good quality, and affordable prices.</p> <p>(2) The government and local government are obliged to encourage and protect the production of basic needs goods and essential goods in the country from meeting national needs.</p> <p>(3) Goods staples and essential goods as referred to in paragraph (1) shall be determined by Presidential Decree.</p>
Chapter V, Part 5, Article 54	<p>(1) The government may limit the Export and Import of Goods to the national interest by reason of:</p> <ol style="list-style-type: none"> a. to protect national security or public interest; and/or b. to protect the health and safety of humans, animals, fish, plants, and the environment. <p>(2) The government may restrict exports goods referred to in paragraph (1) by reason of:</p> <ol style="list-style-type: none"> a. ensure the fulfillment of domestic needs; b. ensure the availability of raw materials needed by the processing industry in the country; c. protect the sustainability of natural resources; d. increase the economic value of raw materials and/or natural resources; e. anticipate a fairly drastic increase in the price of certain commodity exports in the international market; and/or f. certain commodity price stability in the country. <p>(3) The government may restrict the import of goods as referred to in paragraph (1) by reason of:</p> <ol style="list-style-type: none"> a. to build, speed, and protect certain domestic industries; and/or b. to keep the balance of payments and/or trade balance.
Chapter IX, Article 70	<p>In case of import products at prices lower than the normal value, which causes harm or threat of harm to the domestic industry-related or inhibits the development of related industries in the country, the government is obliged to take anti-dumping measures to eliminate or reduce loss or threat of loss or barriers The.</p>

Source: Indonesia's Trade Law 7/2014

⁵ This document is an unofficial translation provided for reference only. See eservice.insw.go.id

As clearly shown from **Table 4.3**, Articles 25, 54, and 70 of Indonesia's Trade Law constitute domestic prioritization by which the state favors domestic productions and materials under the element of economic sovereignty despite the investor might come from foreign actors. However, trade protectionism measures were not merely resulted from national law. Aside from the constitution and national laws, ministerial regulations also have the legal capacity to achieve self-sufficiency. As Rumokoy (2020) suggested, the Indonesian legal instrument has a different hierarchy system and normative level. National trade law has given the Ministry of Trade greater control over import and export regulations on quotas and bans. Therefore, the Ministry of Trade (MoT) and the Ministry of Agriculture (MoA) regulations were also disputed because of import restriction and trade-restrictive effect.

4.2 Indonesia's Legal Instrument Challenged by Brazil through the WTO Dispute Settlement

In light of Indonesia's legal instruments disputed by Brazil through the WTO dispute settlement mechanism, such protectionist measures have indeed affected the flow of international trade. It is argued that the legal instruments implemented by Indonesia are only the symptom of a broader conception of economic nationalism, which in turn affected the global liberal trade order. Two abovementioned legal instruments have been discussed. Both laws are viewed to constitute economic nationalism and protectionist stance by way of prioritizing domestic strategic sectors and certain essential goods. On the other hand, the remaining legal instruments disputed by Brazil through the WTO are the accompanying regulations to further regulate economic nationalism, which is implemented by animal law Article 36(4) and ministerial regulations as the technical tool in regard to food import. **Table 4.4** shows the lists of laws and the accompanying regulations that induced non-complying behavior toward the WTO agreements.

Table 4.4

Indonesia's Legal Instruments Disputed in the DS484

1	Trade Law 7/2014
2	Husbandry and Animal Health Law 18/2009
3	Ministry of Agriculture regulation 84/2013, amended by 94/2013, and 110/2014
4	Ministry of Trade regulation 46/2013, amended by 57/2013 and 17/2014
5	Ministry of Trade regulation 83/2012, amended by 61/2013
6	Ministry of Trade regulation 27/2012, amended by 59/2012 and 84/2012
7	Ministry of Trade regulation 54/2009
8	Decree of the Ministry of Finance 454/2002

Source: WT/DS/484/1 (WTO, 2014)

As for the result, Brazil disputed those regulations to the WTO DSB. This is where the legal assessment plays an important role, particularly in assessing whether or not such regulations have violated the WTO laws. Therefore, the WTO agreements, as cited in the trade dispute DS484 between Indonesia-Brazil are shown in **Table 4.4**. While Brazil had initially proposed several specific articles from different WTO agreements for the consultation process; however, the consultation was failed to resolve the dispute, resulting in a necessity to further the dispute settlement process, which is the panel establishment. In sum, **Table 4.5** listed the articles of WTO agreements cited both during the consultation and the panel process.

Table 4.5

The WTO Agreements, as cited in the DS484

<p>Agreements cited: (as per request for consultation)</p>	<ul style="list-style-type: none"> - Art. 2.2, 2.3, 3.1, 5, 5.1, 5.2, 5.5, 5.6, 8, Annex C Sanitary and Phytosanitary Measures (SPS) - Art. 2.1, 2.2, 2.4, 5.1, 5.2 Technical Barriers to Trade (TBT) - Art. 4.2, 14 Agriculture - Art. 1.3, 3.2, 3.3 Import Licensing - Art. 2.1, 2.15 Preshipment Inspection - Art. III:4, X:1, X:3, XI:1 GATT 1994
<p>Agreements cited: (as, as cited in panel request)</p>	<ul style="list-style-type: none"> - Art. XI:1 GATT 1994 - Art. 4.2 Agriculture - Art. 2.2, 3.1, 3.2, 3.3, 5.1, 5.2, 5.4, 5.6, 7, Annex C Sanitary and Phytosanitary Measures (SPS) - Art 2.2 Technical Barriers to Trade (TBT) - Art. 3.2, 3.3 Import Licensing - Art 2.3 Sanitary and Phytosanitary Measures (SPS) - Art. 2.1 Technical Barriers to Trade (TBT) - Art. III:4, X:3 GATT 1994 - Article 7, Annex B Sanitary and Phytosanitary Measures (SPS)

Source: WTO – DS484: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds484_e.htm

As stipulated in Trade Law, domestic food production and national food reserve are prioritized over imported foods. The importation will only be allowed when the national food reserve is not considered sufficient by the government. The other articles also allow essential and strategic goods to be regulated and restricted by the government. Export and import will only be permitted during a force majeure event. With regard to this case, chicken fits into the description written in the law, and importation will be subject to the decision of the Minister of Trade.

Indonesia imposed specific regulations, such as only allowing importation of whole, fresh, or chilled and frozen chicken while banning chicken cuts. However,

none of the descriptions was found in the ‘positive list’⁶ of which part of chicken products can be imported. The Indonesian government only allowed the imports of chicken for specific uses. For example, this requirement was stated in the Ministry of Agriculture regulation 139/2014 Art. 32, where imported meats, including chicken, can only be used in hotels, restaurants, catering, manufacturing, other special needs, and the modern market. As a result, such a complex and opaque requirement constituted a non-automatic import licensing regime, as illustrated in **Figure 4.2**. The importer is required to seek both ministries’ approval by which the MoA will grant an import recommendation, and the MoT will issue an import approval. This process also took time and was dispute by Brazil.

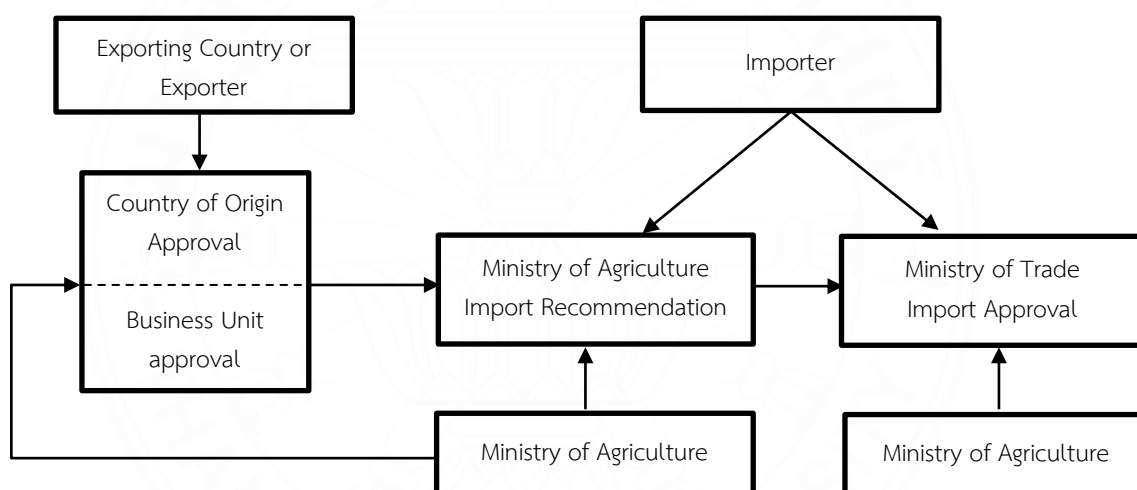


Figure 4.2 Indonesia’s Import Licensing Regime

Source: WT/DS484/R (WTO, 2017a)

The Indonesian government required direct transportation for importers to ship the imported products directly to the ports of entry. However, this requirement has no scientific justification and appeared to be another further restrictive measure to limit chicken imports. Indonesia has also never provided a reasonable official

⁶ Positive list is a list of meat products concerning meat importation, which is regulated by the Indonesian Ministry of Agriculture Import Recommendation and based on the Ministry of Trade approval.

answer in response to the status of approval of the health certificate sent by Brazil since 2009. Indonesia was also accused of doing a discriminatory manner by prioritizing domestic products over foreign products. Such discriminatory attitudes are mainly reflected in Trade Law Art. 26, Food Law, 18/2012 Art. 14, 15, 36, 55, and 56, among other regulations.

As for the response, Indonesia has defended its interest in the multilateral trade arrangement through the available mechanism under the DSB. Although Indonesia is subject to the Special and Differential Treatment (SDT), it has little effect to leverage Indonesia's bargaining position in the negotiation. Therefore, Indonesia, as the responding party, has to follow a lawful dispute settlement procedure as stipulated in the DSU.

4.2.1 Positive List Requirements: The Absence of Chicken Products in the Document

The Ministry of Agriculture (MoA) and Ministry of Trade (MoT) have the responsibility to issue such a regulation to allow the importation of certain products in the list. An importer may acquire an import recommendation from the MoA and import approval from the MoT. This exception includes chicken parts that could not be imported to Indonesia because they are not listed under appendices of such a regulation as both import recommendation and approval. As a result, Brazil argued that this measure has an effect on import prohibition on certain products. Accordingly, this subject was referred to as the 'positive list requirement' for the course of proceeding in the WTO dispute settlement.

Indonesia did not defend on the course of a trade-restrictive measure imposed found in the positive list requirement. However, the Indonesian government sought to justify that the positive list was a necessary measure under Article XX(d) GATT 1994 in order to protect halal requirements according to Indonesian laws. Indonesia contended that it is the authority of the government to examine and inspect, as well as to standardize certain animal products to be safe and healthy according to Animal Law 18/2009. Furthermore, this law requires the importer to have a 'rightful certificate' before importing animal products. The authority also

needs to ensure its halal requirement as per Halal Product Assurance Law 33/2014. Consumer Law 8/1999, on the other hand, necessitates companies to provide definite information regarding the quality of the products.

Those are Indonesia's legal instruments that are necessarily intended to protect Indonesian consumers, particularly regarding the halal requirements, for whom the majority are Muslim. Subsequently, the panel needed to objectively assess whether Indonesia's defense concerning the positive list requirement under Article XX(d) GATT 1994 is justifiable. There is a two-step analysis required to review Indonesia's defense in the DSB system (Rumokoy, 2020). Firstly, the panel is required to assess whether the positive list requirement was originally intended to comply with the halal requirement. Secondly, the panel is also mandatory to assess whether the positive list requirement methodology is recognized by the relevant laws and regulations.

The first step was to assess the relationship between the positive list requirement and the laws presented by Indonesia. It assessed the design of such measures whether or not that compliance with halal requirements is justified. The result was that the panel concluded that there was a relationship between the measures. The next step was then to assess the quality of 'weighing and balancing,' which will take into account several factors, such as the importance of the objective, the contribution of the measure to that objective, the level of trade-restrictiveness of the measure, and possible alternative measures that are less trade-restrictive.

The panel conceded that it is essential for Indonesia to attribute halal requirements to its animal product. Nevertheless, this measure also had a trade-restrictive effect as it effectively imposed an import ban. Yet, the panel was irresolute in determining the second factor, which is the contribution of the measure to the halal requirement objective. Brazil claimed that it would have been possible to convene Indonesia's requirements if it had created slaughterhouse certification in exporting countries. As a result, the panel concluded that the positive list requirement had a trade-restrictive effect and did not pass necessity to achieve the objective, affirming that there is a less trade-restrictive alternative measure to be implemented. Accordingly, the positive list requirement was deemed to be inconsistent with Article XI GATT 1994 and Article 4.2 AoA.

4.2.2 Intended Use Requirement: Discriminatory Measure

Indonesia regulated that imported frozen chicken could only be sold and distributed to hotels, restaurants, catering, and industries. Likewise, processed chicken products could only be sold to the modern market. Had importers violated the intended use requirement, the line ministries, including the MoA and the MoT, would have disallowed the import licensing. The former would revoke the import recommendation list, and the latter would also reject the import approval. Addressing this, Brazil contended that this measure had exclusively expelled the market access for international products to compete in the traditional market. The traditional market is then an important sector to be secured where poultry carcass is primarily sold. This measure thus has restricted the market access for the international product, hence disabling competition opportunities for exported products such as chicken from Brazil.

Although during the dispute settlement process, where Indonesia had amended the relevant regulation concerning intended use requirement, replacing such measure with a less trade-restrictive measure, which requires a cold-storage facility in order to sell frozen chicken, Indonesia attempted to justify the reason for intended use requirement as to protect public health. The Indonesian government raised a defense that Indonesia should have been exempted from the obligation due to exceptions under Articles XX(b) and XX(d), as lacking a proper refrigeration system in the traditional market could have harmed public health. In addition, the government sought to defend the rationale of this measure as it might have posed health risks and was intended to protect the consumers due to the tropical climate in Indonesia, which could have spoiled frozen chicken without a proper cooling system.

In order to assess whether Indonesia had been inconsistent with the WTO laws and thus examine its defense under the general exception in the GATT, the panel was required to inspect the relationship between the intended requirement measure and the objective to protect public health. Secondly, the panel proceeded to thoroughly examine the necessity of such a measure to achieve the objective of public health protection. Under that defense, Indonesia presented

scientific evidence to support the reasoning of which it contended. The panel acknowledged that there were possible risks that might result from frozen chicken thawing, particularly in tropical nature. The panel also approved that there was a causal explanation between the intended use requirement and public health protection. However, the panel has a distinctive ultimate assessment on which the general measure deliberated. It claimed that there was a possible necessary alternative measure, which has a less trade-restrictive measure in lieu of general market access restriction. The fact that the composition of the Indonesian poultry market comprises more than 70% traditional market, the panel was therefore weighed down that this measure had a trade-restrictive measure, to begin with.

It was concluded that frozen chicken could not be equated as the like product as freshly slaughtered chicken, implying that although this measure was necessary, it does have different products' physical properties. Therefore, both products attribute different characteristics, making them 'unlike' products. Besides from intended use requirement, which requires importers to only sell the frozen chicken in certain places, the cold storage requirement, however, is discriminatory according to Article III due to its enforcement that is administered only toward imported products. Hence, the panel adjudged that the intended use requirement could not be justified under the exemption of Article XX GATT. Indonesia was then found inconsistent with Article XI:1 GATT because the intended use requirement was considered a quantitative restriction.

4.2.3 Perplexed Import License: Limited Application Windows and Fixed License Terms

The Indonesian government issued a regulation to control which animal or food products could be imported through an import license regime. It was therefore this import license regime that was challenged by Brazil, claiming that it was inconsistent with the WTO laws. Of all the import licensing regime mechanisms, Brazil specifically challenged the temporal application windows and fixed license terms. The import license regime was intentionally designed to create a manageable document import. Instead, the importers needed to undergo two-step processes, which are to obtain a recommendation from the MoA and an import approval from

the MoA. Therefore, these multiple steps on requesting an import license have a trade-restrictive effect. This is because the import approval was only applicable and valid for a certain period of time, which is 120 days.

Therefore, by having to undertake two-step processes in order to obtain an import license, which is import recommendation and import approval, the issue of import ban has culminated when the importers need to apply in a certain time period, and it was not coordinated. The rationale is on the grounds because once the document of import recommendation and approval are delivered, no changes are permitted. This, however, requires all material, including the number of transactions and type of products, in a detailed manner, complicating importers to follow market mechanism and market demand. Therefore, importers were constrained by the limited time period on import application and intensified by fixed license terms, which disallows businesses to have a certain degree of resiliency in accordance with market-driven forces.

In responding to Brazil's claim, Indonesia provided an objection in which the period of import covered one full year instead of 120 days or three months. Indonesia claimed that the division of the import application window was intended to create a quarterly data report. This means that Brazil could export its chicken products to Indonesia without worrying about the application period. Indonesia put forward its defense in reference to general exception and specifically to paragraph d for the purpose of conforming to Indonesian laws regarding halal assurance, food safety, and consumer protection. Besides, these measures were designed to supervise the safety of the products since they were either fresh or frozen products that required a quarantine procedure as well as custom inspections in a specific entry point.

Based on the panel assessment, it concluded that the limited application period had resulted in trade-restrictive effects due to the timing of each period is close to the previous import application expiry date. Besides, importers could not proceed to ship the products instantaneously whilst waiting for the new import approval. Moreover, there was a certain gap between the new import approval period and the product shipment, which then resulted in a contraction between each period, thus having a trade-restrictive impact.

Whereas Indonesia did not have sufficient resources to manage the all-year licensing system, the panel came to a conclusion that Indonesia's justification to have a limited application period was needed to ensure effective custom management in order to comply with domestic laws with concern to public health and customer protection, including halal requirement. On the other hand, the panel also recommended alternative measures that could have been less trade-restrictive. The panel advised that Indonesia could have allocated the human resources more efficiently by drawing a thorough outline for a scheduled import scheme. This strategy would allow the Indonesian government to redistribute human resources for the supervision of imported products. As for the panel's conclusion, because the import licensing regime to some degree has a vigorous trade-restrictive effect as compared to alternative measures that would otherwise have been less restrictive, Indonesia was then adjudicated to be violating Article XI:1 of GATT.

4.2.4 Undue Delay in Health Certificate Approval

The health certificate is essential in determining the sanitary of one product, particularly the animals that will be exported. Commonly, the importing country will require a sanitary and veterinary health certificate from the originating country to proceed with the process of importation for the purpose of surveilling the products. This health certification is periodically examined to ensure the veterinary health of such imported animals. However, Indonesia was accused of delaying the health certificate approval proposed by Brazil in 2009 in order to proceed with the importation process of chicken meat and products.

As Brazil argued, Indonesia had an undue delay in accepting Brazil's proposal regarding health certificates for chicken products. In responding to this claim, Indonesia confirmed to the panel that it did not respond to Brazil's request. As a result, Brazil maintained that Indonesia had violated the SPS agreement in which the authority needs to assess the sanitary requirements without undue delay and non-discriminatory manner – no less favorable than domestic products.

However, Indonesia rejected this claim because Brazil has not completed all necessary requirements, including halal assurance, which is a public concern. Therefore, Indonesia defended this claim by raising the issue of the

incompleteness of the Brazilian government in providing the necessary halal assurance requirements in the application as Indonesia requested. Therefore, it was not Indonesia that intentionally caused the undue delay, but rather the responsibility of Brazil to completely fulfill all the requirements in the application.

In responding to Brazil's claim, the panel concurred with Brazil because the undue delay caused by Indonesia has induced unnecessary loss of time according to the SPS agreement. In contrast to Indonesia's defense, which requires all relevant documents to be fulfilled within the application, the panel concluded that the approval of the SPS procedure is started when the proposal is submitted with or without all required/relevant documents. Furthermore, the panel's decision whether the delay caused by Indonesia is undue is that Indonesia had been inconsistent with Article 8 and Annex C 1(a) of the SPS agreement, which requires member countries to process the application without undue delay and no less favorable than like domestic products.

4.2.5 Halal Labeling: Public Health Concern

Halal labeling requirements are, indeed, the essential requirement for the majority of Indonesia, most of whom are Muslims that are sensitive to what kind of food they consume. Although there are two types of Muslims, namely nominal devout Muslims⁷ or nominal Muslims⁸, both still prefer the safety of the food by its halal label presence in the packaging. However, it was not the case when it comes to chicken products and meats that are mainly sold in the traditional

⁷ Devout Muslims refers to practicing Muslims (santri), which are the pious group of Muslims who practice and embed Islamic teachings daily to their personal norms and public sphere. In light of the halal requirements in food, they regard halal labeling is essential as it is a matter of Islamic law and should be regulated by the state in the form of public policy, in accordance with Islamic council's recommendation. However, to understand polarization among Indonesian Muslims, it thus necessary to subdivide devout Muslims into traditionalist and modernist. See Baswedan (2004).

⁸ Nominal Muslims denotes non-practicing Muslims (syncretists) who might have less visible distinction between nominal Muslim, devout Muslims, and cultural Muslims.

market where the halal label could not be found. Yet, since the slaughterer or the seller are Muslims, the potential buyers would not consider this as a problem or concern for the safety.

Although under halal assurance law, both imported and domestic products are required to register products to get the halal certification, chicken meat that is sold in traditional and even modern markets often does not have the halal label. For this reason, Brazil disputed the halal requirements asked by the Indonesian government because it did not consistently surveil halal labeling for domestic producers, implying a discriminatory reverberation toward imported products, which requires a stringent halal assessment. Besides, disproportionate treatment in terms of halal requirement certification would have resulted in market access restriction for imported chicken products and meats from Brazil. As for the compliance with the halal label requirement, Brazil also argued that its products could not access the Indonesian market even though it has conformed to the slaughtering process according to Islamic law. Furthermore, the economic reasoning that compelled Brazil to dispute the halal requirement was that the labeling process would have charged additional costs for exporters.

However, Indonesia rejected this claim for several exceptional reasons as constituted in the halal requirements regulation 69/1999. Halal label exemptions are regulated if the food packaging is too small, quantity is a small and large amount. Indonesia argued that locally produced chicken, particularly the one sold in the traditional market, is not subject to halal certification because it is directly sold in small quantities to the consumers, thus exempting its obligation from halal certification. On the other hand, Brazil maintained that this was discriminatory against Brazilian chicken because it reasoned that its frozen chicken products were still subject to halal labeling because they were not under halal exemptions.

Interestingly, Indonesia's defend was accepted by the panel, which then granted the Indonesian halal labeling law. Thus, imported chickens have to be packaged and labeled before they reach the entry point, including the traditional market as it was the one that being disputed by Brazil. Furthermore, the panel also concluded that Brazilian chicken was not subject to the exemption since it is frozen

products; hence, it requires cold storage for the purpose of selling in traditional markets. Besides, the additional cost charged on exporters was already liable before it reaches Indonesian entry points. Therefore, the panel agreed that the Indonesian government did not intentionally favor domestic products and discriminate against Brazilian chicken products. However, Brazilian chicken would have been exempted from halal labeling requirements if the imported products had been sold directly to the customers.

4.2.6 Direct Transport Requirement

In the process of international trade, export and import activities require regulated and standardized measures in order to safeguard the quality of the products, hence becoming a subject of dispute when certain one-sided regulations are incriminating the other. This was the case when Brazil disputed quantitative restriction, which was imposed by Indonesia, that required direct transportation to the Indonesian territory. For this requirement, Brazil claimed that Indonesia had been inconsistent with Article XI (1) and Article 4.2 of AoA. Under Indonesian regulations, for those exporters that did not comply with direct transportation requirements, which means if exporters had stopped in another country for the purpose of transit, the products would be rejected and not be allowed to enter the country.

In response to what Brazil had claimed, Indonesia spurned the claim because it has never imposed such a regulation that specifically disallows transit in other countries, which are not the originating country or destined country. As per Indonesia's defense, Brazil deemed that the aforesaid regulation is in a 'murky language' manner, which then confused the interpretation of other member countries in the WTO. Therefore, the clarification of regulations from both sides is necessary for resolving the issue, which can be subject to a trade dispute. Brazil specifically referred to the regulation of MoA in Article 19(a) 33/2016 because it induced a legal uncertainty, which constituted quantitative restriction.

With regard to the assessment of this particular topic, the panel is required to examine whether the murky language found in the regulation under the MoA, particularly the direct transportation clause, is consistent with GATT and AoA. As a result, the panel determined that Indonesia had not been inconsistent with the

relevant provisions as what Brazil had claimed; because under Article 19 in MoA regulation, it stated that products have to be transported directly from the originating country to the destined country, and if the transit is necessary, it has to follow the animal quarantine regulation. Indonesia, however, requires an importer to fill up the form to list transit ports before entering Indonesia.

In conjunction with the disputed MoA regulation due to its murky language, Brazil claimed that it had created a trade-restrictive effect, which was followed by market access restriction, market uncertainty, additional cost, and competitive disadvantages for the exporter. However, Brazil was unable to put forward such uncertainty undergone by its exporters.

4.2.7 General Prohibition

Indonesia was accused by Brazil due to the imposition of a general prohibition of importation against Brazilian chicken. However, such an accusation was denied by Indonesia because Brazil's argument was that the measures imposed by Indonesia were a general prohibition of importation, which was then rejected because there were no written measures to prohibit imports in any manner. On the contrary, Brazil maintained that the general prohibition of importation came into effect when individual written measures and their combined procedures would have resulted in the total ban on imports. Such individual measures imposed have been discussed above; however, to sum up, those individual measures, the lists are as follow: (1) positive list requirement; (2) government's authorization over the decision of sufficiency of food supply and food import; (3) the control of importation mechanism lies onto the government's authority as to decide the essentiality and importance of the products while enacting the trade law mandate; (4) intended use requirement; (5) delay in health certificates approval; (6) perplexed import licensing regime.

The aforementioned individual measure, as Brazil argued, was meant to achieve a single objective, which is the self-sufficiency goal in conforming to food law. Brazil claimed that it was the very objective of self-sufficiency per se that dictated Indonesian regulations to virtually prohibit importation because 'everything' that would be imported needs the government's authorization. According

to the WTO panel document, Brazil contended this dispute by raising the issue of the absence of chicken imports since 2009.

However, the correlation between the absence of chicken importation since 2009 and a combination of individual measures, hence general prohibition on imports, needed to be assessed objectively by the panel to judge an unbiased evaluation. During the adjudication, the panel refused to accept Brazil's contention because the fact that Indonesia had not imported chicken since 2009 was not enough to support its argument. It is necessary for the panel to be objective in order to avoid judicial activism as explicitly instated in the DSU, which prohibits panel "...to add or diminish the rights and obligations in the covered agreements." The panel referred to the previous Appellate Body report in which trade effect could have two different meanings, whether it is necessary to prove nonconformity of one measure. Therefore, the panel required Brazil to provide the causality between trade activities and violations.

The next step taken by the panel was to clarify the legal instrument used by Indonesia in all imposed measures. Among six measures, four of them were linked to the animal law that governs importation. Therefore, those four measures were assessed as having an individual effect as they complement each other, resulting in ban import. On the other hand, the other two measures, self-sufficiency and essentiality goods, were associated with different legal instruments because they do have a higher normative level. This is because such legal instruments have a different hierarchical structure in Indonesian law.⁹

During the objective assessment procedure, it is necessary to judge not only based on the connection between different legal instruments to measure the one single trade-restrictive effect in order to avoid judicial activism. Thus, the panel needed to create a separate assessment in which every measure has to have interdependency causality toward general trade-restrictive effect as claimed by Brazil.

⁹ Self-sufficiency and essential goods clause are part of the national laws, whereas the rest of measures are ministerial regulations, which have lower normative level.

As for the results, the panel did not side with Brazil on this matter since the panelists did not find the interdependency among the imposition of trade-restrictive measures due to its hierarchical nature. Disappointingly, the panel could not provide a reasonable explanation in assessing the interdependency between national laws and ministerial regulations. Further, with respect to the import licensing regime, the panel perceived that there was no dependency among four individual measures, meaning that even if the individual measure is dismissed, it will not affect the others.

The further step taken by the panel to assess the impact of general prohibition was to evaluate the effect of such an individual measure. The panel referred to those individual measures by providing examples of which the dependency was nonexistent. The perplexed import licensing system and the undue delay of health certificate approval, for example, were not dependent. On the other hand, Brazil claimed that regardless of how many individual measures imposed by Indonesia, it would result in general prohibition, maintaining that there were unwritten measures intentionally designed to prohibit chicken from Brazil.

The next issue was to assess whether there was a link that holds such individual measures. Brazil specifically mentioned that it was the self-sufficiency objective that dictated the line-ministries to impose those trade-restrictive measures. In this regard, the panel concluded the assessment by way of providing the judgment wherein the individual measures should be based on one political objective. The panel, however, decided to reject Brazil's claim because it had failed to provide the causality between the self-sufficiency objective and the individual measure.

Brazil had submitted the OECD report to support its argument, asserting that Indonesia's agricultural policy is subscribing to and prioritizing self-sufficiency as the end goal. Within the same report, it stated that Indonesia had imposed non-tariff barriers in a stringent manner to control import and export activities and implemented them in opaque means. The panel decided that using the OECD report was not enough to assess whether regulations imposed by Indonesia are justifiable. The panel concluded that the OECD was regarded as an outsider perspective and deemed as a secondary source. In this regard, the WTO requires a

primary source clarification from the Indonesian government. In addressing this matter, the panel concluded that the OECD report was insufficient to be the justification of Brazil's claim, which alleged the unwritten general prohibitions imposed by Indonesia. Therefore, the panel agreed that self-sufficiency as a political goal was not inconsistent with the WTO laws.

However, Brazil was not pleased with the panel judgment. Responding to this issue, Brazil presented the evidence of which a letter was sent to the Brazilian Ambassador to Indonesia from the Director-General of Livestock, MoA. The content of the letter was saying that Indonesia has been self-sufficient in terms of the poultry industry and eventually rejected Brazil's certification. Whereas Indonesia has been focusing on achieving the political objective of self-sufficiency, thus prioritizing domestic production and the fulfillment of domestic demand, Brazil argued that Indonesian chicken products were still able to be exported. However, the panel perceived this letter as insufficient evidence to clarify whether it has linkage to the existing trade-restrictive measures.

Another effort made by the Brazilian government was to provide another piece of evidence, which is the media articles. However, the panel did not find this evidence as a justifiable rationale to assess Indonesia's inconsistency with the WTO agreement because those articles might not have essentially reported facts in the most objective way. Instead, the press articles might have been representing the interpretative body of facts or opinions. The panel also determined that those articles have not made any necessary investigation regarding the causality of the imposed measures and chicken import ban. Therefore, the panel agreed that Brazil had not demonstrated sufficient evidence for the allegation of the unwritten general prohibition on chicken import carried out by Indonesia.

4.3 Legal-Economic Rationale of DS484

The legal-economic analysis of the case study of the trade dispute between Indonesia-Brazil over the importation of chicken from Brazil (DS484) has been provided by Rigod and Tovar (2019). As Indonesia has lost the lawsuit against

Brazil in the DSB, in effect, it has to ease the importation of chicken products and meats from Brazil. Before the circulation of the panel report, Indonesia – through the Ministry of Trade regulation 29/2016 and the Ministry of Agriculture regulation 34/2016 – allowed the import in a *de jure* sense, but they did not issue the import license. This resulted in a *de facto* ban, by which foreign chicken meats and chicken products were not allowed to enter the Indonesian poultry market (Wright & Darmawan, 2017). However, Indonesia did not promptly conform to the WTO ruling because of the challenges it faced in conjunction with the neoliberal forces in the international trade, which induce trade barriers removal, including tariff and non-tariff barriers. Rigod and Tovar (2019) claim that the dispute that involved Indonesia, fundamentally, has raised the tension between its domestic food policy preferences and the WTO law.

Several countries in the world, such as the US, China, Brazil, India, Russia, and Indonesia, have the capacity to mass-produce a large number of chicken products and chicken meat. While Brazil is the third-largest chicken producer in the world after the US and China, it could produce 12,87 million tons and contribute to 14.86% of total world production. Furthermore, Brazil is the largest chicken product and meat exporter in the world, which contributes to 38.03% of the world's chicken export activities that serve its foreign exchange (Chafid, 2018).

Despite its capacity in producing a large quantity of chicken and one of the biggest chicken producers in the world, Indonesia is not a net exporter. At the domestic level, the demand for chicken meat in Indonesia could be fulfilled with local production. However, the data of chicken export and import in Indonesia, as illustrated in has been shown that the value of export and import of chicken meat is relatively low and less reliant on the foreign market. In contrast, the data that Rigod and Tovar (2019, p. 224) have provided, which were derived from World Integrated Trade Solutions (WITS), is somewhat different from the official data published by the Indonesian government.

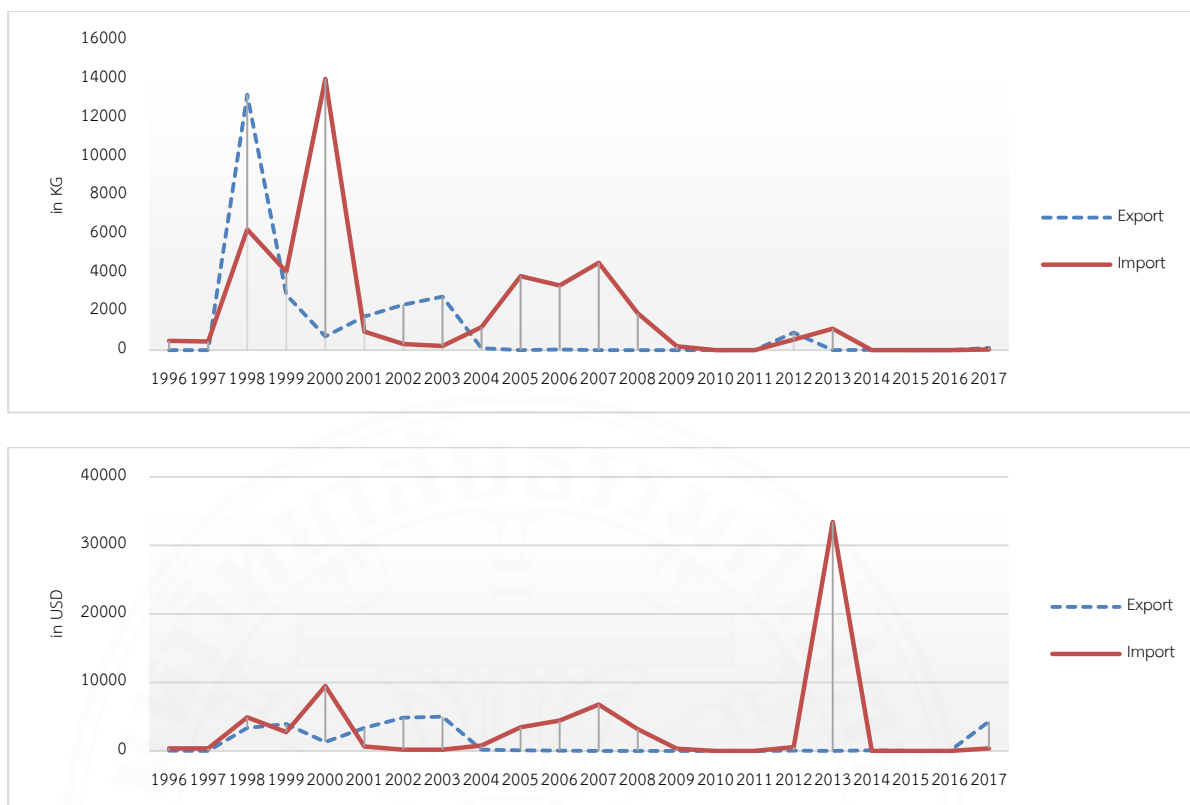


Figure 4.3 Indonesia's Chicken Meat Import and Export Balance 1996-2017

Source: (BPS and Chafid, 2018 from Indonesian Ministry of Agriculture)

As Indonesia has implemented an import ban through non-tariff barriers against chicken importation (see **Table 4.6**), the tension emerged from international and domestic. In this regard, non-tariff measures have been used as the main instrument to restrain chicken importation. Among all non-tariff measures, Indonesia imposed Sanitary and Phytosanitary (SPS) by three quarter out of the total percentage.

Table 4.6

Indonesia's Non-tariff Measures on Chicken Imports

Type of Non-Tariff Measures (NTMs)	Number of NTMs	Percentage
Sanitary and Phytosanitary (SPS)	36	75%
Technical Barriers to Trade (TBT)	8	16.67%
Pre-Shipment Inspection (INSP)	3	6.25%
Quantity Control Measures (QC)	1	2.08%
Total	48	100.00%

Source: (Rigod & Tovar, 2019)

The use of non-tariff measures against foreign products' presence, particularly chicken products from Brazil, can be analyzed through the conventional economic rationale; when there is no exchange, there is also no revenue that can be extracted from foreigners. It has to be acknowledged that economic rationale is also one of the considerations that justify why the Indonesian government implemented such trade barriers. Rigod and Tovar also argue that the motivation of Indonesia to implement trade barriers was to keep stability in terms of domestic prices under the banner of self-sufficiency goals and food security. However, self-sufficiency or autarky is described as a practice of economic nationalism (Di Nunzio, 2013). Correspondingly, James (2011, p. 527) asserts that the state is striving for national self-sufficiency (autarky) as a strategy to increase power in the international economy because it is a necessary instrument for political power.

4.4 The Dynamics of the Indonesian Poultry Industry: Market Structure and Actors

Poultry has not only played an important role in providing a source of protein for Indonesian consumers but also a source of income for poor households in rural areas, especially in terms of income and employment (USAID, 2013). Indeed, the poultry industry is not as attractive as the rice industry in the political economy, where it is placed as the secondary or tertiary commodity (Khudori, 2019). However, it is noteworthy to clarify the sources of meat within the agricultural sectors because there is a different structure in meat consumption. Furthermore, chicken has been classified as a strategic commodity following the issuance of the decree of the Coordinating Ministry for Economic Affairs KEP-11/M.ECON/02/2010, which was in turn included in Trade Law 2014. The industry size, actors and stakeholders, how it contributes to food security and self-sufficiency, and sector margin will be discussed below.

4.4.1 Market Structure

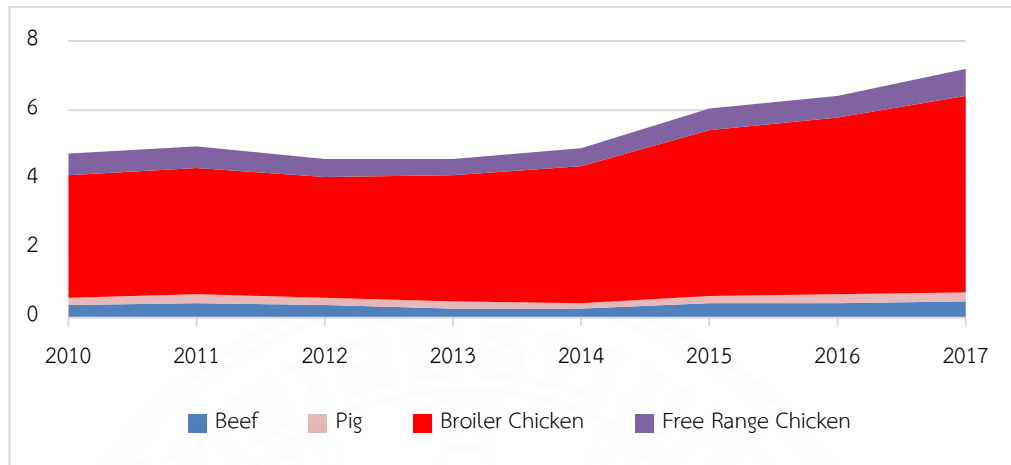


Figure 4.4 Meat Consumption Per Capita Per Year (2010-2017) in kg

Source: The Data and Information System of Agriculture, the Indonesian Ministry of Agriculture, 2020

Indonesia's poultry consumption has increased significantly as poultry meat becomes more affordable. As GDP rises, poultry meat consumption rises too. It is noted that poultry consumption per capita was at 4kg in 1994, has reached 8kg in 2014, and is forecasted to reach 12kg per capita in 2023. As Indonesia is also the largest Muslim population in the world, comprising 229 million out of 263 million population, Indonesians consume chicken as one of the most popular and affordable protein sources over other sources of meat. Poultry consumption reaches 6.7 kg per capita per year, 5.3kg of which is from broiler chicken, as shown in **Figure 4.4**. While different kinds of protein sources such as cattle, buffalo, goats, and pigs are popular, poultry, particularly broiler chicken, is the most consumed meat in Indonesia.

Ferlito and Respatiadi (2018) have put forward the argument regarding the correlation between poultry consumption per capita and GDP per capita. The reason why it has grown slower is that chicken is considered to be an inferior good, as compared to other protein sources, like beef or pork. Although the Indonesian population composes a large market size whose demand prefers

affordable meat, Indonesia's poultry production is still lower than China, the US, Brazil, the EU, and India. However, there is an increase in demand during the festive season.

The poultry sector has been industrialized since the 1980s, when a lot of foreign and national players started to invest in human capital and technological capability, given the growing market in Indonesia. The poultry sector has also contributed to 65% of animal protein that Indonesians consume (Wright & Darmawan, 2017). Moreover, the sector has been providing 12 million workforces, making it one of the essential industries in the agricultural sectors. However, as the economic performance started to decrease in 2012, many businesses have been disrupted, and some independent broiler farms went bankrupt (Wright & Darmawan, 2017). As a result, this led to oversupply to some extent (see **Table 4.7**), resulting in protests by farmers to hand out more than thousands of live chickens in Central Java (Hartono, 2019).

Table 4.7

Broiler Chicken DOC Supply and Demand, and Poultry Feed Production

Year	Annual Broiler DOC (million heads)		Annual Poultry Feed Production (000 MT)
	Demand	Supply	
2012	1,660	1,880	12,700
2013	1,970	2,200	13,800
2014	2,100	2,500	14,400
2015	2,500	3,000	16,000
2016	2,650	3,250	17,280

Source: (Wright & Darmawan, 2017)

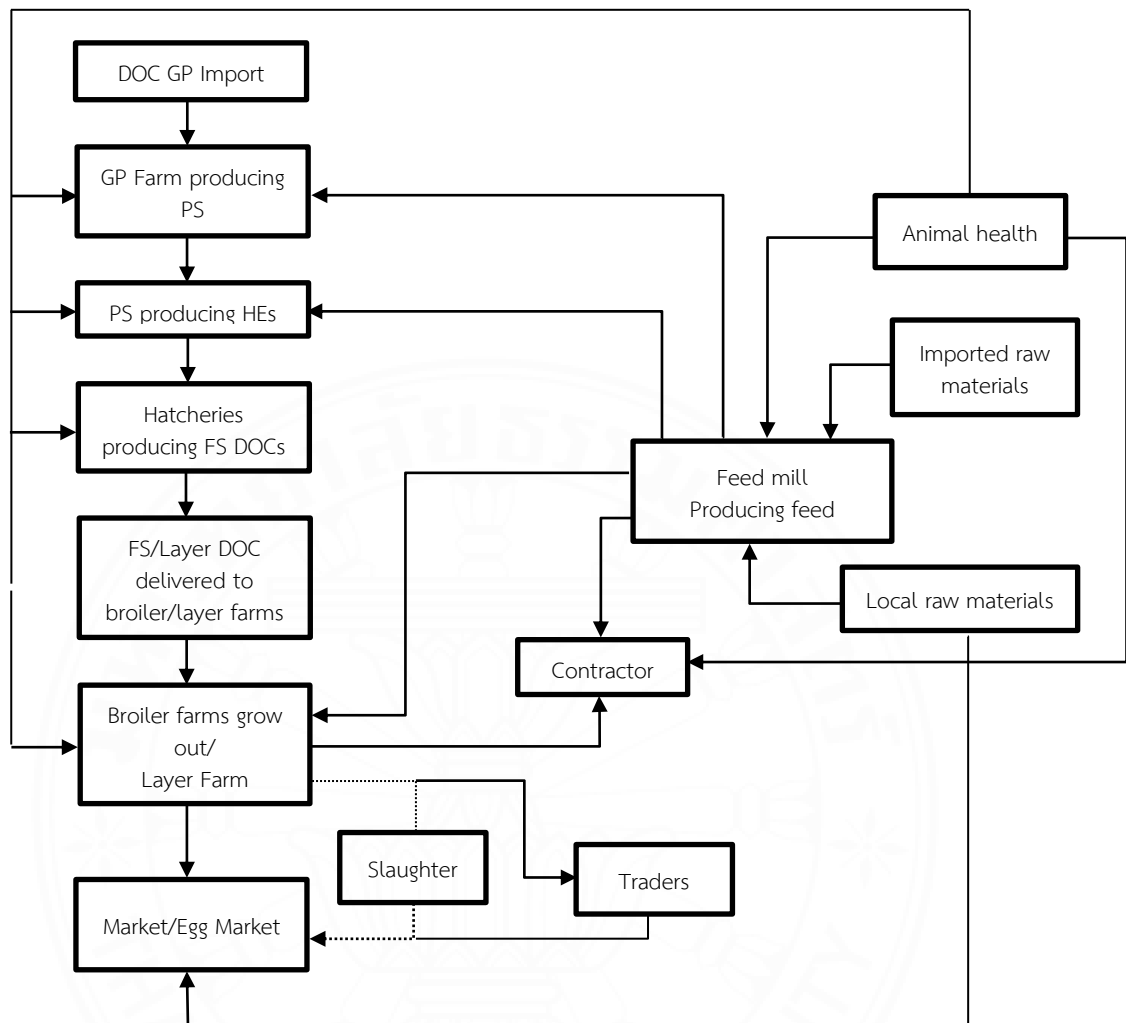
In terms of international trade, Indonesia imports poultry genetics, which was accounted for 24.8 million breeders and 81% of which are originated from the US, as the USDA Foreign Agriculture report writes (Wright & Darmawan, 2017). Regardless of its insignificant export, the Indonesian government had the initiative to

double the production in 2012 as Indonesian poultry production and consumption rate are below the average of other Asian and neighboring countries.

Tawaf (2019) contends that there is an inconsistency within the government policy framework concerning the national poultry development plan. There is also a misconception between the concept of food security, food sovereignty, food independence, and animal protein self-sufficiency. With regard to the concept of food security, the food demand is sourced from either imports or locally produced foods. However, the Indonesian government regulated that food independence, or prescribed as food self-sufficiency, must be locally produced while only importing 10% of its need. Furthermore, food sovereignty is the right of the state and the people to determine food policy independently in order to ensure the food rights for public interest according to Food Law 18/2012.

The poultry industry in Indonesia is divided into different sectors. As noted by USAID (2013), the industry at least comprises three sectors, which are broiler, layer, and native chicken.¹⁰ Each sector has a different flow of activities. Broiler and layer sectors have similar supply chain flows, as illustrated in **Figure 4.5** below. However, the native chicken sector is not included as its market segment does not compete directly with imported broiler chickens. In the production process, Indonesia's poultry producers depend upon feed imports, particularly corn and soybean, as Indonesia is a comparative disadvantage in terms of production due to an unsuitable climate. Grandparent Stock (GP) is also imported to increase the genetic line with thicker meat. The illustration below shows how different actors have contributed to the value chain, including contractors, whose role is to supply the broiler to the wet market or the processing plant.

¹⁰ Broiler is a classification of a male chicken which is reared for meat production; layer is typically a female chicken that lays eggs, and some of which will be sold to the egg market; native chicken is grown in village environment. Both broiler and layer have their Grandparent Stock (GP) imported, mainly from Europe and the United States, before their parent stock (PS) is raised at a breeding farm.



DOC: Day Old Chicken; GP: Grandparent; HE: Hatching Egg PS: Parent Stock; FS: Final Stock (broiler).

Figure 4.5 Commercial Broiler and Layer Sectors Value Chain

Source: (USAID, 2013)

Where large integrators usually own their contractors, companies such as CP or Japfa have been using contractors due to a large number of farms and geographical challenges. However, contractors or sister company (who may be dependent or independent from the integrator) has the highest margin, accounting for 28% among another supply chain (feed mill, farmer margin, traders, slaughter / market). In USAID's analysis (2013), contractors bear the highest market risk, funding, and administration costs, which in turn represents fair reward to investment and risk. This integration indeed poses a challenge to small and independent poultry farmers

who do not use contractors. These farmers thus have to take all the responsibility so that that they bear the risks, market demand, and financial access independently. These small groups are prone to vertical market disruption by which the state control the regulations and other large integrators dominate the market and vertical integration. These structural factors thus accentuate the importance of establishing associations, which perform as a trade union or association in articulating the political interests.

4.4.2 Actors in the Indonesian Poultry Industry

As Khudori (2019) has pointed out, there is a price anomaly in the poultry industry. While the production prices plummeted at the suppliers' level, the prices at the consumers stay the same. This has led to a line of inquiries about who are the beneficiaries of this supply chain system. Who are the players and the actors? Who dictates the market or even controls the prices? In this regard, small and independent poultry farmers have led the actions to address the prices gap to Indonesia's Business Competition Supervisory, State Intelligence Agency, Special Task Force for Food Affairs (under police), and, of course, the MoA and the MoT. Therefore, it is noteworthy to underline who owns the biggest market share in Indonesia's poultry industry.

As discussed above, the value chain stage represents each political and economic interest. Such a value chain is typically showing the large integrator's flow of activities, where the contractors – who supply the grown broiler to the wet market – serves the interest of integrators. Several value chains are operated under several large integrators, whose market shares account for a significant amount. On the other hand, small and independent poultry farmers have to invest and undergo the productions with limited capital access. They also have to bear the market risks with insufficient human capital and limited resources. **Figure 4.6** displays the feed and day-old chicken production shares in Indonesia. Charoen Pokhpand Indonesia (CP) – a Thai conglomerate group – appears to be dominating both sectors, accounting for 34% in feed and 38% in DOC production capacity. The second biggest market share is owned by Japfa – an Indonesian-owned company based in Singapore – that accounts for 25% in feed and 22% in DOC production capacity. On the other

hand, other companies' market size is relatively small as compared to these two companies.

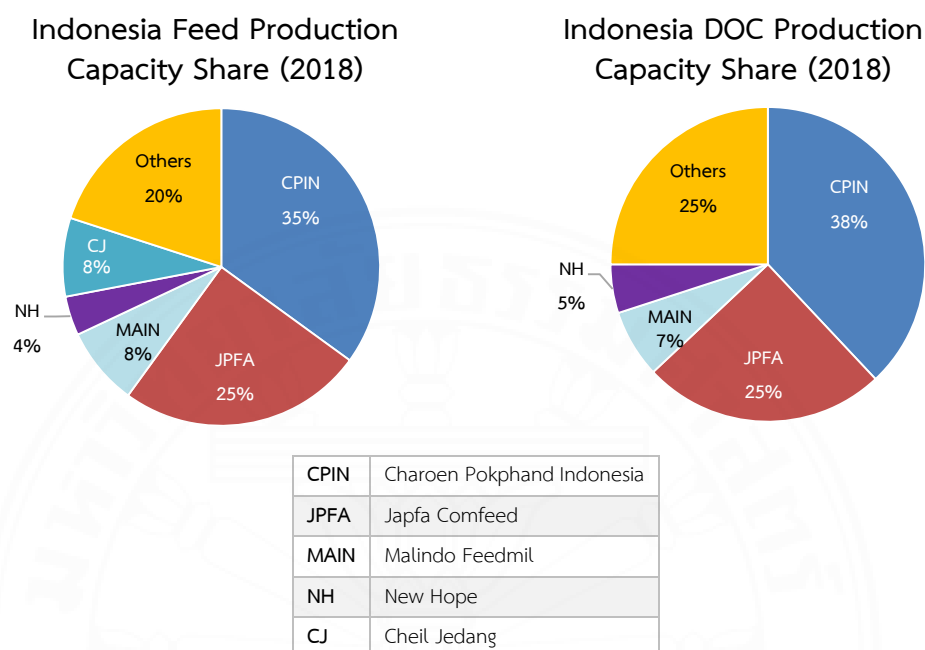


Figure 4.6 Feed and DOC Production Shares in Indonesia

Source: (Seekingalpha.com, as cited in Center for Indonesian Policy Studies, Ferlito & Respatiadi, 2018)

Table 4.8

Number of Head Slaughtered by Indonesia's Top 6 Poultry Firms in 2015

Rank	Company	Head Slaughtered (Million)	Parent Company
1	CP Indonesia	80	Charoen Pokphand (Thailand)
2	Japfa Comfeed	37	Japfa Ltd. (Singapore)
3	Sierad Produce (Sreeya Sewu)	23	Gunung Sewu Group
4	Wonokoyo Group	20	n.a
5	Malindo Feedmill	19.4	Leong Hup Holdings/Emerging Glory (Malaysia)
6	Sujaya Group	5	n.a

Source: WATT Top Poultry Companies Database, as cited in Alonzo (2016)

Whereas the previous figure shows the market share of feed and DOC production capacity in Indonesia's poultry industry, **Table 4.8** exhibits the number of slaughtered chickens by six top companies in the Indonesian poultry industry. Two companies, i.e., CP and Japfa, in this sector are still consistent in dominating the poultry market in general.

Charoen Pokhpand

Several companies statistically dominate the Indonesian poultry industry; meanwhile, the production is concentrated in several areas, particularly in Java. Charoen Pokhpand (CP), a Thai conglomerate group, has one of the largest market shares, which grasp more than 66% of the national market for processed chicken (Alonzo, 2016) and 34% feed production capacity and day-old-chicken (DOC) production capacity, and has slaughtered 80 million chickens in 2015. Since its expansion to Indonesia in 1973, CP has established more than 60 subsidiaries across Indonesia, making it to be one of the leading poultry firms in the market. It is also known for its subsidiary brand, Fiesta, which is operating in value-added processed products, such as nugget and sausage, etc.

Japfa Comfeed

The second biggest market share is owned by Japfa, an Indonesian-owned poultry firm based in Singapore that comprises around 20-25% share in feed and DOC production capacity and has slaughtered 37 million chicken in 2014. Aside from CP, Japfa is also one of the earliest players in the industry, which was established in 1975. Not only known for its value-added food processing products, but Japfa also controls upstream and downstream supply chain, which comprises poultry feed, DOC, live birds, and farm supplies – making it one of the leading companies in the industry.

Sierad Produce

Similar to the first two, Sierad Produce (later changed to Sreeya Sewu) was established in 1985, although it was only gone public in 1996. Sierad aims at aligning its vision with the government's objective to provide affordable products by doubling the production as per the government's instruction. It has been able to obtain a significant market share in Indonesia due to its integration in the vertical

supply chain, starting from the feed, DOC, the live bird, broilers to processed food. Sierad is able to slaughter 23 million chickens annually, representing the third-largest producer in the Indonesian poultry industry.

Wonokoyo Jaya

Wonokoyo is a fast-growing poultry company that operates in East Java and is specialized in DOC and layer chick production. Although it has been relatively low profile in the national market exposure, it is considered as the fourth largest integrator due to its large number of broiler slaughtering, which accounts for 20 million per year.

Malindo Feedmil

Malindo Feedmill, on the other hand, is a subsidiary established by Malaysian conglomerate Leong Hup Group. Although it was established in 1997 and is relatively new, Malindo has been able to compete with other integrated poultry firms. Malindo, under Leong Hup Holding, is one of the largest integrator poultry firms in Southeast Asia – which also operates in Malaysia, Philippines, Singapore, and Vietnam. Its confidence in the industry has brought Malindo to be awarded as ‘best of the best’ by Forbes Indonesia.

While the accumulation of total production in the Indonesian poultry is 184.4 million broiler heads per annum, only one-fourth, or 46 million, is produced by indigenous companies (Alonzo, 2016). The fact that the Indonesian poultry companies are growing 8-9% per year, surpassing the growth of GDP per capita, which only accounts for 5-6% annually, has made the poultry industry attractive to the new players. Once the new players entered the game, it would create over-supply, hence affecting the price stability. On the other hand, government regulations can also pose a threat to the continuity of business because new regulations through license and permit could affect demand and supply.

The abovementioned companies are the significant players in the industry and, in fact, have abundant financial, physical, and human resources to better their positions in the market competition by developing technology that involves production, services, and processes. This implies that the resource domain could determine the dynamics of the Indonesian poultry industry, which is, in turn, contingent upon political-economic analysis.

4.4.3 Political Economy of Indonesia's Poultry Industry

There are 13 organizations in the Indonesian poultry industry – ranging from production, cultivation to postproduction chain – which, in fact, have been evolving from time-to-time and merged with like-minded interest stakeholders. In 1961, the first association, the Association of Indonesian Poultry Producers, was established. Following the increased number of players in the poultry industry, the breeder organization, the Poultry Breeder Companies Association, was also established in 1970. In the postproduction segment, the Indonesian Poultry Market Information Center was established.

USAID (2013) reported that the breeding sector is dominated by large integrators and is represented by two associations: The Association of Indonesian Poultry Producers (GAPPI) and the Poultry Breeder Companies Association (GPPU). GAPPI represents large companies that operate in feed, farms, growing, and processing, which essentially control much of the supply chain. GPPU represents about 90 large breeding firms in this regard. And GPPU represents feed producers, whose main interest is to lobby the government to liberalize feed imports.

On the other hand, the broiler farm is dominated by small and independent farmers, which accounts for 5-20,000 bird capacity, who raise bird for large integrators (60-70% of production) and are independent (20% of total production). The integrated firms, however, started expanding themselves in broiler production that accounts for 100,000 capacity equipped with more advanced technologies. The representation of this segment is occupied by two major associations, the Association of the National Chicken Farmer Organizations (GOPAN) and the Indonesian Poultry Market Information Center (PINSAR). Both represent political objectives.

In the Indonesian poultry industry, the interest groups are representing both economic and non-economic (political) interests to exert their influence on the state regulations. The objective to influence public policy changes made these interest groups political. The formation of interest groups demonstrates a necessity to organize a political power that was previously disorganized. In achieving such a political goal, political business objectives rather seem to be

dependent on which strategy it pursues. However, this is not to suggest that strategy alone would be the most instrumental factor that dictates one's political objective. It rather questions whether the invisible hand as envisaged by *laissez-faire* has underlined the dynamics of the poultry industry.

Departing from the assumption that business actors are rational actors, there is a growing importance of political power identification in a more recent era in which democratic backdrop has enabled such business groups to pursue their interests in a more institutionalized and structured setting. Moreover, agricultural sectors, which are politically sensitive, also intensify the necessity of political-economic analysis. Baysinger (1984) suggests that there are three main political objectives of business activities. Such conceptualization of the objectives of political business draws a connection to the economic and political interests in the poultry industry. Thus, political business objectives are categorized into three domains: management, defense, and maintenance.

Domain management aims at influencing the state apparatus to create a favorable condition in which it will benefit the self-interested groups at the expense of others. This domain suggests that articulative business interests have been accommodated by the government and implies that the level of *laissez-faire* is at a minimum. Domain defense, on the other hand, becomes the central focus when there is an external force, such as society or government, that might pose a challenge to the existence of such business activities. In other words, domain defense reflects the efforts to challenge the organizational illegitimacy that is resulted from the incongruity of the norms and values to the society. The third domain is maintenance, which is defined as a business' determination to counteract the challenges by maintaining organizational effectiveness, efficiency, and survival (Baysinger, 1984).

However, domain management seems to be more prominent in the dynamics of Indonesian poultry politics and in political business objectives in general due to its self-interested nature in *realpolitik*, which is aggravated by pragmatism over a socially just system in which ideological and moral notion play a little influence. Moreover, the legitimacy of one political objective of a business

association depends on the degree to which the government's hand ensures the business activities. Yet, the presence of big poultry firms in Indonesia that has been established augments the domain maintenance of such business interest's survival under the state's democratic capitalist system through which it nurtures the old players. Therefore, the objective of big poultry firms is a combination of the three political business goals – rather than a singularity that is usually common in a traditional beggar thy competitor arrangement – due to various players that have joined business interest associations in pursuing collective interests representing specific concern in the supply chain (e.g., feed supply chain would likely to advocate import liberalization in feed/maize to reduce production cost intended for achieving efficiency and lower net-price).

The power possessed by the interest groups comprises two elements, namely structural and instrumental. The former could be obtained from the dependency on the state (top) or the market (bottom), whereas the latter is sourced from lobbying or donation (Paster, 2018). Structurally, domestic business interest actors, whose objective is political, are dependent on both the state and the market. On the other hand, instrumental power is a way in which interest groups pursue their concern through different methods. However, the source of power per se does not necessarily determine the political decision. Rather, the extent of political challenges, as insinuated by Paster (2018), would have an effect on which strategy business interest groups are pursued in order to coopt in accordance with certain external disruptions. The strategy that could be pursued entails two different categories: confrontation and adaption (Paster, 2018).

Indeed, market mechanisms and certain regulations have benefitted certain actors. Many believe that several big poultry firms have profited excessively from the market through cartel-like behavior (Nuharja, Murniati, & Wardani, 2018; USAID, 2013). A researcher from the Institute for Development of Economics and Finance (Indef) contends that there is a correlation between the price slump and integrators' cartel behavior. Further, the price setting is intended to attack the independent farmers so that they would not have the option but to join the integrator as a partner (Thomas, 2020).

A similar situation also took place in 2016 in which Indonesia's business competition supervisory (KPPU) found that 12 companies had conspired to monopolize the market and control the industry from upstream to downstream in the supply chain (Munthe & Nangoy, 2016). Through the KPPU order No.02/KPPU-I/2016, CP, Japfa Comfeed, Malindo Feedmil, and other nine companies were alleged to violate the Monopoly and Business Competition Law 5/1999. In the process of investigation, the State Intelligence Agency (BIN) was also involved. In fact, small and independent farmers associated with PINSAR have challenged big poultry firms in many confrontational approaches by way of organizing protests and rallies, not only against the MoA and the MoT but also big companies such as CP.

However, CP Indonesia director Jemmy Wijaya claimed that those 12 companies had only followed the Ministry of Agriculture's order to take the necessary measure to stabilize the price (Singgih, 2016). Similarly, Japfa's marketing director, Budiarto Soebijanto, denied that there were a cartel system and conspiracy in which the company had manipulated the price (Amin, 2016). Nonetheless, the verdict was revoked in the following year after 11 firms appealed to the court. As a result, the West Jakarta District Court has accepted the request and discharged the charges and the accompanying fine (Agrocommodity Asia, 2017). The court has stated that these companies had not violated Art. 11 in Monopoly Law 5/1999 (Setiabudi, 2017). As a consequence of this decision, KPPU appealed a cassation in November 2017, but the Supreme Court rejected the request in May 2018. The court firmly believes that these 12 companies did not violate the Monopoly Law as they only followed the government instruction as part of the price stabilization effort (Septiadi, 2018).

The dynamics in the Indonesian poultry industry have been responded to by actors differently. A strong dichotomy between small independent farmers and integrated (big) firms has colored the politics of the poultry industry. Although the development of organizations in the industry has been evolving, the coordination among industry players is internally contradictory and tenuous. This is aggravated by the fact that the players have been if at all, polarized by which the market share is dominated by the integrators. This leaves limited

structural options for small and independent farmers, which only accounts for a small market share. The predatory pricing set by large companies, however, is intended to undermine small and independent farmers. In an interview with a Pinsar representative, larger firms have the capacity to dictate the market, thus putting pressure on small farmers because they could not compete efficiently due to a lack of technological and human resources.¹¹ Furthermore, the unfair preexisting competition in the Indonesian poultry industry has pushed into a condition in which small poultry farmers – who are analogous to novice boxer in lightweight class – has to encounter the ‘big guy’ or the integrators – who are analogous to heavyweight experienced boxer – in the same ring.

This structural factor thus exhibits the importance of players’ size in the poultry political economy. This unfair competition constituted by large firms has only shown one thing, that is self-interested political objective is pursued under the cloak of consumers-orientation by providing more affordable net-price. However, such an affordable price is not the reflection efficiency, but rather a political pressure that aims at undermining small and independent poultry farmers through their instrumental power, i.e., price-setting that is predatory. Therefore, the most beneficial consumer-stance strategy as if it is based on the ‘invisible hand’ as envisaged by *laissez-faire* remains to be the central question. This does not suggest in normative level but rather an inquiry of dialectical materialism. Even if so, at what level? It also leads to a question of whether competition could generate innovation, given the considerable amount of gap between the integrators and small and independent poultry farmers.

Khudori (2019), who is associated with the food security council working group and activist in Indonesia Political Economy Association, maintains that this is a classical problem in the poultry industry. He points out how the bargaining position of integrators has been increased because of vertical integration. Small and

¹¹ Author’s Interview, B1, August 2020

independent poultry farmers who are outside from the vertical integration, both upstream and downstream, have been marginalized. Their bargaining power is therefore small. Whereas the resources at the upstream supply chain are mainly imported, which is, of course, under the government's authority, large integrators – who supply the GP and PS – would directly affect the livelihood of small and independent poultry farmers. The same situation also goes with the feed (soybean and corn) that must be imported from Brazil and the US. Once the prices of imported products in the international market increased or the rupiah are devalued, such a situation will affect small and independent poultry farmers the most because the price of *input* is high, and the price of *output* is low. Khudori further argues that the solutions offered by the government – which addressed the oversupply by culling the DOC – do not touch upon the root of the problems, i.e., structural factors. Therefore, relying on the solutions that only cure the symptom would not solve the domestic cleavage and coalition.

4.4.4 Regulatory Capitalism and Protectionism in the Poultry Industry

Husbandry and Animal Health law 18/2009, later amended to 41/2014, has allowed large integrators to dominate the market by involving in the breeding farm, which was previously dominated by small and independent poultry farmers (Khudori, 2019). This law gives greater space for large integrators to increase their efficiency by integrating the supply chain vertically. A member of Commission IV of DPR, Singgih Januratmoko, who was also an independent poultry farmer, notes that the law has decreased the number of independent poultry farmers because they have to compete for the same market vis-à-vis integrators (Ake, 2019). Although the law has been amended because it had been challenged by Brazil in the WTO dispute settlement mechanism, such a law has unlocked a full-force capitalist system in the name of increasing efficiency and food security (accessibility) under which large integrators are able to expand their business and control both upstream and downstream chain within a regulated and managed capitalism.

In regard to the role of the government in managing genetic resources, it should be under the national assets (Art.8 Par.1). Furthermore, those who want to exploit genetic resources must enter into an agreement with the state (Art.9 Par.1). The most important imperative in this law is Article 10 Paragraph 1,

where corporations now could cultivate genetic resources. Accordingly, business or importers of genetic resources must obtain approval from the Ministries (Art. 11 Par.1). According to many interview sources, this law enables large companies who have immense capitals to control the supply chain, starting from setting the price of DOC to selling the final stock of broiler to the traditional wet market. The expected outcome is to level the playing field between all players. It is intended to open opportunities to contribute to food security by realizing affordable access for consumers to poultry meat. This means that the law is liberalizing the industry, which in turn benefits foreign companies and investors (Ginanjari & Permana, 2015).

Ashwin Pulungan, secretary of the poultry farmer association, contends that while the foreign investors already dominate the national chicken market as much as 75%, the enactment of this law further liberalizes the market. Therefore, this undermines small and independent poultry farmers as unintended consequences because the integrators also operate in the traditional wet market. Few attempts to challenge the law to the constitutional court have been pushed by small and independent poultry farmers. Poultry unions urged the governments to remove the law and replace it with the presidential decree or governmental regulations and clearly divide the market segmentation (Ginanjari & Permana, 2015). Small and independent poultry unions also urged the government to align with its practices as mandated in Article 29 Paragraph 5 of Husbandry and Animal Health Law, whereby the government is obliged to protect farmers from the unfair competition (Ajeng, 2019). They also urge the government to be serious in regulating the prices as planned in the MoT 96/2018 regulation on price at both producers and consumers level. Because at this point, integrators are the ones who import the DOC, they are free to control the prices without reference price.

The competition between small and independent poultry farmers vis-à-vis integrators to secure their interests through regulated capitalism and protection shows the ways in which different actors compete to stir the laws, regulation, and such. The competing interests between actors in the industry are in many ways have benefitted large companies, while small and independent poultry farmers continue to suffer.

CHAPTER 5

THE TENSION BETWEEN ECONOMIC NATIONALISM AND THE WTO AGREEMENT IN ATTAINING SELF-SUFFICIENCY

This chapter will explore in what ways and to what extent the domestic actors and their class struggle in the poultry industry could exert their influence on the Indonesian government's decision-making process. This chapter employs a two-level game framework to analyze the virtual two-board game of negotiation between domestic and international levels. Further, economic nationalism is also a concept that is imperatively instrumental for a reason behind why the Indonesian government had imposed trade-restrictive measures insofar as imposing a non-automatic import licensing regime, which in turn resulted in a trade dispute between Indonesia and Brazil. This part focuses on the role of domestic actors and the politico-business relations, which constitute the dynamics of the struggle of state apparatus in realizing self-sufficiency as a legitimate political objective. The later part of this chapter will investigate Indonesia's negotiation, bargaining position, and external forces in the WTO forum regarding the DS484 case and the role of the WTO in performing the dispute settlement mechanism. This chapter also seeks how far the DSB can enforce its judicial decision to put its member in compliance with the WTO agreement.

Attaining self-sufficiency by way of prioritizing domestic production to achieve self-reliance has become political. This chapter suggests that the proposition of economic nationalism has played a significant role in the decision-making framework for both the Indonesian government and the domestic actors, which includes the business interest associations (BIAs) and the trade union (TUs). Economic nationalism has been an ideological motive and a policy preference since the early independence. Although it has been manifested in various policies, economic nationalism is divergent. Economists tend to define economic nationalism based on specific policy outcomes. On the other hand, political scientists portray economic nationalism's central premise as gravitating around its motivation and nationalist content, thereby distinguishing between policy preference and outcomes.

Therefore, the manifestation of economic nationalism in each regime is not clear-cut. However, each leader shares the same historical factors, which account for the policy preferences that embed the anti-colonial movement as the nationalist content. The appearance of the self-sufficiency goal was more visible when Suharto achieved rice self-sufficiency in 1986 and was recognized by the FAO, albeit for a limited period of time. It is argued that the concept of economic nationalism is essential in determining food-related policy prescription. Most of the time, if not all, economic nationalism policy is designed to protect the domestic producers or markets at the expense of foreign competition. However, economic nationalism does not necessarily imply an illiberal U-turn in policymaking. Instead, it departs from nationalist motivation, in which the concept has been entrenched in the political process at the state level.

Under Yudhoyono's administration, a series of liberalized food import policies have been implemented to save the national economy, which was intended to stabilize food prices to retain the purchasing power and minimize inflation (Virginaputri, 2013). The efficacy of controlling food prices had been costly. Take, for example, not only did beef import exacerbate the livelihood of local farmers, but it also caused corruption in controlling the import quota by the PKS chairman. As a result, it was only in his second term that Yudhoyono introduced a series of protectionist measures by promoting domestic sectors through various laws. Such legal instruments are deliberately aimed at protecting local producers and prioritizing domestic industries, particularly in the agricultural sectors. Thus, the enactment of laws was designed as a means for the state to deliver a top-down approach in providing legal certainty for domestic sector protection. However, the presence of grievance toward foreign players in the agricultural sector had also fueled the public demand for protectionism. However, the ultimatum against imported products does not necessarily reflect socialist tradition whose central premise is focused on redistribution of wealth and unequal wealth accumulation caused by multinational corporations. Notwithstanding socialist influence, this narrowly minded paradigm is insufficient to comprehend economic nationalism, particularly once it is entangled in agricultural issues unless it has nationalist motives.

Nonetheless, the identified vested interest in achieving economic nationalism often paves the way for rent-seekers in the mobilization of farmers and other producers to achieve self-sufficiency (Aspinall, 2016). However, the ramification of political and conflict of interest from different actors that were premeditated to compromise and profited directly involved individuals, in turn, had resulted in series of unintended consequences, such as increasing the price of essential commodities and mounting up the poverty rate. For instance, the case of the government-proposed program RASKIN¹², which was intended to distribute rice to poor households, was full of corruption and inefficient distribution, given the challenges in determining the indicator of who is eligible to receive the rice (BULOG, 2010).

5.1 Jokowi's Economic Nationalism Manifestation of Food Sovereignty

At the end of Yudhoyono's tenure, the president, who has been tagged as, surrounded by, and grown up with elites (Mietzner, 2012), has lost his popularity (Aspinall, 2015; The Economist, 2012). Elitism in the Yudhoyono's regime, which was characterized by either high-ranking ex-military officials or western-graduate technocrats, had given space for alternative political saliency, particularly populist politics that loomed in the 2014 election when Yudhoyono was about to finish his second term. It was Jokowi, who climbed up the ladder from grass-root politics, starting from Mayor in Solo to Governor in Jakarta, and eventually joined the presidential race in 2014 against ex-military commander Prabowo during the Suharto era, who has also joined the 2009 presidential election as vice-president candidate along with Sukarno's daughter Megawati.

¹² RASKIN (*Beras untuk Rumah Tangga Miskin*, Rice for Poor Households) is a government-design program in 1998 to help poor households in attaining food security. RASKIN was originally designed to be a social safety net program as the economic had undergone a downturn after the financial crisis in 1998. In 2002, RASKIN was no longer a social safety net program, but is a social security protection program.

During his campaign, Jokowi promised to become more decisive in responding to Yudhoyono's legacy, which is what Mietzner has characterized as a 'stagnant and stable' regime. The *New Hope* in Indonesian politics to bring populism into the equation, as opposed to predatory elitism, has ultimately gained Jokowi's popularity for his appealing political oration. His political campaigns that promise to reduce dependency on elites and cronies in order to have an effective bureaucracy (Mietzner, 2012) were, perhaps, the alluring façades that made him win the presidential debate. However, the broad focus on national political elites is one small fracture in identifying state-centric top-down economic nationalism analysis, which the following subchapter will address.

“Political will is key to achieving food self-sufficiency, community-based agribusiness, and value-added agricultural exports, addressing challenges of trade liberalization, and ultimately attaining a welfare nation.”

Jokowi in the presidential debate in 2014.

The manifestation of economic nationalism in Jokowi's political campaign can be identified from his Nawacita Goal¹³ or Nine Priority Programs, which embedded autarky, self-sufficiency, and sovereignty. It was Nawacita that made Jokowi and Jusuf Kalla elected in the 2014 presidential election. Of nine goals written in Nawacita, two of which are touching upon the autarkic economic agenda. These are “to improve people's productivity and competitiveness in the international market so that Indonesia can go forward and rise alongside other Asian nations.” and “to realize economic sovereignty by mobilizing domestic strategic sectors.” As a result, many trade protectionism policies were introduced to protect domestic producers or what Patunru and Rahardja (2015) referred to as 'bad time and bad policy.'

However, Jokowi's economic orientation has been pursuing a contradictory path. One could argue that it is a combination of orthodox and liberal economic strategy with economic nationalism under 'a new developmentalism' (Warburton, 2016, 2018). Among the five objectives promoted in the 2019 campaign, one focuses

¹³ Nawacita is adopted from Sanskrit. *Nawa*: nine and *cita*: goal/program.

on the attraction of both foreign and local investors to open jobs to as many people as possible, as well as to remove heavily regulated restrictions on investment, illustrating the indulgence toward neoliberalism and trickle-down economics.

A key difference in Jokowi's economic vision between the first and the second term is that there is a shifting policy preference. Thus, the alteration from the former to the latter echoes Friedrich List's manifesto (See Hagemann, Seiter, & Wendler, 2019; Levi-Faur, 1997a; List, [1841] 1909), which is known for its theoretical proposition of fertile industry protection, in which tariff and early-stage domestic industry protection are the necessary strategy to catch-up with the global market.

With regard to agricultural issues, particularly the political objectives in attaining self-sufficiency, it remains to be an intellectual debate whether self-sufficiency is a default setting of every politician during a political campaign.¹⁴ Many analysts have agreed upon the issue of which the election or political years have generally driven politicians to become more nationalists, claiming that they would represent people's interest the most – which is also a common practice in a representative democratic milieu. However, it is normal for a politician to become a more nationalist figure, particularly before the election. Thus, nationalism could be a tool for a politician to grasp a wide range of constituencies.

Paradoxically, economic nationalism can be addressed in two different ways, either top-down or bottom-up approaches. Many analysts and the general public have characterized Jokowi's political leadership as a grass-root and close to 'people'; although some might disagree that when he is in power, analysts tend to see that Jokowi is powerless because he is surrounded by the same oligarch interest (See, for example, Vedi R Hadiz & Robison, 2017; Muhtadi, 2015; Warburton, 2016). As a result, Jokowi seemed to be struggling to achieve economic nationalism as an end goal. His populist feature is characterized by the autarkic goal that works hand-in-hand with the oligarchy, which runs the politics as in the business-as-usual scenario while repeatedly emphasizing populist rhetoric. Therefore, there is a chronic rhetoric-performance gap in Jokowi's administration.

¹⁴ Author's Interview, A2, August 2020

One example that demonstrates top-down economic nationalism within Jokowi's autarky is the project of building the food estates in 30 thousand hectares of crop plantation. Interestingly, Jokowi appointed Prabowo, who is now the Defense Minister in Jokowi's second-term cabinet, as the chief for this special project in September 2020 despite their rivalries in the 2019 presidential election. The appointment of Prabowo as the chief of the food estate project is seen as a realignment of the political coalition. The appointment of Prabowo, who is also an ex-military general, will likely demonstrate a masculine and hard-nosed approach in securitizing the food estate as the top national interest. It was also Gerindra¹⁵ and Prabowo himself who unremittingly proposed the food security issue in the previous presidential election. In addition, Trenggono, the former Vice Minister of Defense, claimed that the food estate project is also a national security concern aside from providing defense equipment and drug independence. In this regard, Trenggono added that food and logistics are the essences of war (Kompas TV, 2020), constituting a more masculine style of the reconceptualization of food security. Besides, this program is also designed to achieve food security as recommended by the FAO.

The way of the state in realizing economic nationalism resonates top-down approach, which is also signifying patrimonial features derived from the idiosyncratic feature of Jokowi himself. Conversely, the second type of economic nationalism depicts a different way in which the grassroots movement has a more significant role in demanding protection, usually because of foreign competitors' domination in the market share, inducing insecurities of the powerless and vulnerable group. In some cases, the movement started to boycott foreign products that have had unfavorable implications for the public, particularly those of politically sensitive issues, such as halal certification.

¹⁵ Gerindra (*Gerakan Indonesia Raya*, Great Indonesian Movement Party) is a nationalist right-wing populist political party formed in 2008, whose General Chairman is Prabowo. See partaigerindra.or.id

5.1.1 Imagined Nationalism: Revisiting the Historical Legacy

Jokowi's autarkic agenda in achieving a great nation could not be separated from Indonesia's historical legacy, in which the nationalism ideology is rooted in the resistance against colonialism. Indonesia's nationalism is populist and an antithesis of bourgeoisie nationalism that serves the interest of the elites (Sulistyo, 2016). The birth myth of utopian economic nationalism, however, does not exist in an empty space. Its *philosophische grondslag* is socially constructed where the projection of how the nation is formed and how it 'should be' is based on what Anderson (2006) referred to as 'imagined communities.'

Nationalism is a more potent ideology than any other -ism. Its *raison d'être* is based on the condition in which the Indonesian raw material and economies were exploited by the Dutch and its colonial interests. Indonesia has always been dependent on advanced economies and has become a country for developed economies to launder their excess capital in and a market destination for developed countries to export their processed products to. Therefore, Sukarno's partiality to the poor farmers, whose income is only enough for himself, is therefore referred to as Marhaenism and is manifested to Agrarian law in 1960 to restructure wealth for equalization and social justice that were imagined by the people (SPI, 2007).

In continuing the autarkic goals, Jokowi acknowledges the need for the reinterpretation of Sukarno's original idea, which is called as Trisakti principle, orienting how an ideal nation should be. It includes political sovereignty, economic autarky, and cultural identity that are manifested in Jokowi's domestic and foreign policies (Nikmah & Maghroh, 2020). However, Sukarno's notorious idea was very political, given the necessity to mobilize the nation-building in the early days of Indonesia. Trisakti principle then became the underlying principle for Jokowi's manifestation of economic development that is based on democratic, prosperous, and just values.

It is argued that nationalism is Indonesian politicians' default ideology in a democratic milieu whose constituencies and political parties' regeneration have spawned nationalist-minded political cadres. The politician will

also repeatedly envisage independence by shouting ‘Merdeka’ (independent), which is a rhetorical tool to acquire more electorates. Although the ideological division between political parties and state apparatus is vague, nationalism has played a significant role as a collective identity and national-building process. Collective national identity entails a meaningful actualization of an ideal nation that is sovereign, independent, and self-reliant. Therefore, it was also this reason that has underlain economic self-sufficiency.¹⁶

5.1.2 Material Nationalism: Populism and Distributional Politics

While national populism *a la* Jokowi has contributed to Indonesian political dynamics and discourse, a rational and benevolent version of nationalism has always been part of human history (Levi-Faur, 1997b). A German philosopher and political economist, Friedrich List ([1841] 1909) suggests that material nationalism is complementary to Adam Smith’s materialist approach in economic development. Among three productive powers, i.e., capital of nature, capital of matter, and capital of mind, List also contends that they have a hierarchical relation in which natural and material are inferior to mind capital. However, this does not neglect the needs of national material productive power in the national political economy, which also utilizes nature capital that includes land, water, sea, mineral to build its economy.

Material element in the realization of nationalism ideology is essential to differentiate wealth and causes of wealth. In this regard, the economy should hinge on national interest. The utilization of productive material capabilities only reinstates the national role in economic development. However, there is a contrasting narrative between economists who champion liberal and free-market policies as a means to achieve economic growth and politically sensitive individuals who endorse embryonic industries protection. On the surface, it reflects the protectionism within the populism framework, which is in line with what Hamilton-Hart (2019) describes as illiberalism, where populist and nationalist narratives reflect a distrust of the international market.

¹⁶ Author’s Interview, A2, August 2020

Jokowi's Nawacita manifested in new developmentalism has illustrated the spirit of economic nationalism, which not only accounts for material capabilities but also populist economic distribution. This type of economic nationalism is preordained to protect the domestic economy when it is still in the early stage of development and is vulnerable to open policy trade. While not rejecting the idea of free trade, it is instead deemed as a transitional policy on a road that will eventually lead to free trade. Unlike orthodox Marxist tradition, whose critical analysis centered on the political economy ramification caused by neoliberal forces that accrued the bourgeois, economic nationalism, materially, has propelled different social movements, which has been acknowledged by, become the agenda of, the state apparatus. Economic nationalism has also been reinforced in both top-down and bottom-up economic policymaking. Thus, it is safe to claim that material nationalism emerged in neither left nor right camp.

Therefore, Jokowi's new developmentalism puts people first as an intermediary factor, which connects the interest of individualism and an imagined nation in order to achieve fast-paced economic growth. Instead of designing a 'beggar thy neighbor' policy, Jokowi aimed at improving people's productivity and competitiveness, which reflects List's manifesto in enhancing human capital as a productive power. Consequently, Jokowi has been able to combine national interest with distributional politics that appeal to domestic producers and consumers, paving the way for populism as a political instrument in maximizing wealth and national power.

5.2 The Struggle of State Apparatus in Food Self-sufficiency

Self-sufficiency, as discussed in the previous chapter, has always been a politically sensitive issue. The old kind of protectionism to achieve self-sufficiency is associated with each regime's manifestation. The use of economic nationalism as an analytical tool in the discourse of self-sufficiency has been useful, particularly in a top-down approach, where a figure of the leader is in the nucleus of the nation's economic philosophy. However, recent debates suggest a different way in which the

political economy of food self-sufficiency is no longer solely demonstrates patrimonial developmentalism that nurtures capitalism under the state's patronage.

Whereas Sukarno's marhaenism portrays a socialist economic pattern that is heavily protectionist in nature, Suharto's dramatic economic reform in the late 1960s had emphasized the role of technocratic expertise that operated non-tariff barriers in 1970-80. Despite high economic growth under Suharto – thanks to the Cendana and other closely-linked businesses – crony capitalists in the 1990s were only able to achieve economic success under the state-capitalism framework. However, it was the AFC crisis followed by the fall of Suharto that marked a new political economy of food self-sufficiency. Monopoly rights to the import of state-controlled national food agency, Bulog, has been relaxed. Democratization, then, has enabled a greater space for private enterprises to diminish state intervention in the market environment. It was until Yudhoyono's first term that food import policy had been liberalized designed to stabilize prices in response to increased global prices. However, excessive food import policy, followed by cabinet shakeup, has altered Yudhoyono's second-term economic approach, which observers view as backward to protectionism that poses a threat to trade openness. This illiberal turn thus restored Indonesia to dirigisme.

Democratization in politics and economic affairs has redistributed power and redefined the role of the state in the market. In line with this argument, Fukuoka (2012) insinuates that post-Suharto politico-business relations in Indonesia have been shifted from patrimonial administrative, where politico-bureaucrats had the ultimate power, to patrimonial oligarchic state. Fukuoka tends to perceive Indonesia as somewhat characterized by plutocracy fashion in which business elites (*cukong* and *pribumi*) have the more latent capacity in the political affairs and have a stronger interest vis-à-vis state apparatus. However, this thesis suggests a slightly different approach with regard to the agricultural sector, whose business is widespread to big business and small farmers, because the poultry business is one of the most industrialized sectors. It is argued that although businesses' reliance upon the state might perpetuate patrimonialism, the state continues to accommodate the vested interests in a specific industry, which comes from multi-directional forces, through a

more rational-legal approach. Therefore, despite a weaker state apparatus, the state employs a regulatory framework as a means to deal with the proliferation of business interest, which denotes the importance of a legal instrument to manage business interest in a democratic state.

This implies that there is a paradigm shift from statist patrimonial in which the state is more powerful vis-à-vis business interest to the weaker state, opening more space for business interest to gain access to direct access in politics, which was resulted from democratization. In the current state of political economy, Jokowi inherits the previous administration's legacy, which exemplifies regulatory and oligarchic states or a combination of thereof. As business players have more political influence in a democratic backdrop through a structured and institutionalized environment, the government has to tailor business interests. However, a pro-business outlook eventually leads to more protectionist measures.

A more robust business influence on the decision-making process reflects a weaker state's role, indicating the necessity of laws and the accompanying regulations as an essential legal instrument to achieve the political objective of self-sufficiency. The regulatory framework of trade and investment regulations, of course, has undergone a comprehensive political process, which intended to restrict import or export to favor domestic producers. Therefore, the growing protectionism through a mercantilist-toned attitude could not be separated from the policy preferences, laws and regulations, and public (stakeholders) pressure and interest. Protectionist measures stipulated in trade, horticulture, food, farmer protection, and empowerment laws, for example, have demonstrated the regulatory capitalism that prioritizes domestic production and self-sufficiency.

Aside from the central emphasis on the idiosyncratic feature of Jokowi himself on the manifestation of political sovereignty, the state apparatus, too, has a structural element in actualizing the political objective of self-sufficiency. This is because the line-ministries, particularly under the coordinating ministry for economic affairs, the MoT and the MoA, have the legal capacity to enforce self-sufficiency goal goals (Di Nunzio, 2013). One thing that should be noted is that achieving self-

sufficiency by means of protecting ‘essential’ goods¹⁷ (staple foods) is the central government’s responsibility. Authorized by the law, therefore, the MoA and the MoT have the authority to control the market, restrict export/import, and manage supply/demand.

5.2.1 The Ministry of Agriculture

The collapse of neoliberal globalism resulted from the GFC has made the MoA become more sympathetic to protectionism as it deals directly with big business and local farmers, whose economic success is subject to the government’s patronage. The struggle of politico-bureaucrats to continue economic autarky in terms of farmer productivity lies under the responsibility of the general directorate of livestock and animal health. Under the MoA’s 2015-19 strategic plan, manifested in **Table 5.1**, it proposed self-sufficiency by providing a partnership concept and a guideline to harmonize all actors to be in a positive game. The MoA asserted that this partnership concept is not a pro-free market, referring to the predatory capitalism where the big players could predominantly control the market.

¹⁷ Essential goods (*barang pokok penting, bapokting*) refers to Indonesian staple foods listed in the appendix of Trade Law 2014 that includes beef, chicken, chili, cooking oil, egg, flour, garlic, milk, rice, shallot, soybean, and sugar.

Table 5.1

Strategic Plan of the Ministry of Agriculture Republic of Indonesia 2015-2019

Broader Vision	Missions	Objectives	Strategic Goals
<p><i>“The realization of a sustainable bio-industrial agriculture system which produces a variety of healthy food and high-value products local resource-based for food sovereignty and farmer welfare.”</i></p>	To accomplish food sovereignty	Improving the availability and diversification of food toward food sovereignty	To achieve self-sufficiency in rice, corn, and soybean as well as increasing meat and sugar production
			To improve food diversification
	To attain a sustainable agriculture-bioindustry system	Increasing the value-added and competitiveness enhancing agricultural food products	To enhance value-added commodities, competitive in accomplishing export market and import substitution
		Developing raw materials availabilities for bioindustry and bioenergy	To provide raw materials for bioindustry and bioenergy
	To fulfill farmers’ welfare	Improving farmers’ incomes and welfares	To improve the income of household farmers
	To effectuate bureaucracy reform	Improving the quality of performance of agricultural government stakeholders trustworthily and professionally	To achieve the good accountability of government stakeholders

Source: (Ministry of Agriculture, as cited in Rumokoy, 2020)

“There’s an uneven level playing field between small and big players. The small farmer has limited market access; the broker has done predatory pricing; larger firms dominate other segments... so it is necessary to harmonize and consolidate the market forces under the MoA, which acts as a ‘father’ of the agricultural [poultry] sector.”

(Interview C1, September 2020)

The trend of politico-bureaucrat kind of patrimonialism is reflected in the fact that it has envisioned the MoA as a father of Indonesian farmers and producers. Such patrimonial features are displayed through the primary role of economic nationalism in achieving food self-sufficiency and food security as the most significant concern of the central government. It is not only responsible for producing a sufficient amount of food supply but also for ensuring the food reserve, which aims to be self-sufficient without foreign reliance. Another characteristic of patrimonialism that is being displayed is the fact that the MoA is exercising its authority vis-à-vis farmers as its subordinates, where the collective interests are superficial.

5.2.2 The Ministry of Trade

The role of the MoT in achieving economic nationalism has been diversified with at least three different policies regime. According to the Domestic Trade Bureau (2013), protection in the form of the implementation of tariff barriers is conceived to be the enabling factor to foster local poultry producers’ business system. Furthermore, tariffication and other forms of protection are a ‘temporary’ measure before the national production system, and local farmers could compete efficiently. These strategies are archaic, given the reverberation of Friedrich List’s manifesto in his *National System of Political Economy*. At this point, a protectionist measure was not only a mechanism to surge self-sufficiency but also a product of compromise with business interest.

“We [the government of Indonesia] will continue to find every possible way to protect Indonesian agriculture in the world trade forum [the WTO] including the rights of poultry farmers... in a way that complies with the global trade regime and according to the WTO rules... as it is Indonesia’s national interest.”

(Interview C2, October 2020)

The augmentation of self-sufficiency under national populist narratives as a means to achieve autarky might be politically appealing in the short run. Defending the interest of the nation in the framework of economic nationalism through protectionism to achieve self-sufficiency, by contrast, will only benefit the specific producers, which are nurtured under the statist agenda, rather than stimulating business model reform. However, policymakers have to be open-minded in creating ‘goldilocks scenarios’ by taking into account the unintended consequences.

The opportunity cost to achieve self-sufficiency is higher than achieving food security if the risk of self-sufficiency policies is not well-calculated. Thus, the measures would not render the most efficient economic policy outcomes. In this regard, Indonesia’s self-sufficiency goal is peculiar, given the objective is to improve food security due to its domestic production inadequacy (Di Nunzio, 2013). This goal embeds a populist objective in lieu of ascertaining food security frameworks that include accessibility, availability, and affordability. In panorama, economic nationalism is the means and the end to achieve food self-sufficiency. At this moment, the MoT concedes that the most economically wise measure is to eventually lift restriction while also continuing to defend Indonesia’s international interest.

The role of bureaucratic polity is then essential to defending national interest within the framework of economic nationalism. Thus, both the line-ministries are not only administratively authoritative and but also instrumentally principal in determining structural and political objectives and, eventually, efficacy. In turn, the importance of line-ministries’ role is centralized at the meeting under which the coordinating ministry for economic affairs would consider political-economic factors. This solidifies the government’s action in intervening in the market or what economists referred to as market failure correction.

5.3 Achieving Economic Nationalism and Self-sufficiency from Bottom

The simplification of the idiosyncratic feature of the state in attaining economic nationalism is speculative. Patrimonialism and legal-rational or a combination of thereof might have colored the Indonesian political economy that debates patron-client relationships in particular. Whilst the state apparatus' power has been diminished, business interests – represented by two types of actors, business interest associations (BIAs) that represent big companies (integrated firms) and trade unions (TUs) that represent small and independent farmers – have ascended their political powers in the democratic backdrop. Although democratization has redefined the role of the state in both market environment and self-sufficiency goal, one also must note the extent to which the state is willing to undertake self-sufficiency goal and compromise with pressure groups in general and business interest in particular. It leads to the question that inquires how far the domestic actors have contributed to economic nationalism and self-sufficiency goal.

Patrimonial feature in accomplishing economic nationalism and self-sufficiency through the state-apparatus is clear-cut. However, business actors are not completely powerless and would not have become the subordinates of the states for granted. Businesses are rational actors. The fact that they need patronage from the state apparatus or the line-ministries, in this case, is the result of a structural hierarchy in which business actors are dependent on a statist rational-legal approach. It forces businesses, both firms and unions, to play by the rule, particularly in the democratic setting through institutionalized and rules-based tenets.

This indicates that patrimonialism, not necessarily driven by oligarch interest in the sense of rules-based rationality, creates a condition in which the accumulation of wealth does not come from a free market with true competition. However, business interest associations have benefited from the state's resources and patronage. For example, the Husbandry and Animal Health Law 18/2009, later amended to 41/2014, has enabled integrated firms to raise livestock and cultivate poultry and live birds. This constitutes a negative impact on the small and independent farmers because big companies could dominate the market from

upstream to downstream.¹⁸ By the enactment of this law, it changed the role of integrated firms to have a greater extent in the market, which was previously only allowed to produce DoC (Ake, 2020), as regulated by the Presidential Decree in 1990, though it was removed in 1999. The implementation of this law also, in turn, allows the integrated firms to have more structural power at the bottom, whose market structure comprises of 80% share (Prasetyo, 2019).

This not to suggest that the capitalist system is not functioning. In fact, competition under capitalism is a driving factor that contributes to a more competitive market. As one Austrian school economist, who was also involved in the Indonesian poultry industry, has argued, regardless of what ideological notion business players are, their nature is capitalism.¹⁹ Business owners will eventually endorse and reckon on the most economically wise policy for them. This is because the fundamental principle of the private sector is self-enrichment.

However, the competition between integrators and independent farmers is also essentially imbalanced because the difference in technological capabilities and capital resources would determine the competitiveness. In this regard, integrated firms have benefitted from the state's economic nationalism and have only little nationalist content in their economic sensemaking.

Although Indonesian poultry firms are dominated by foreign players (several of whom are wholly foreign-owned enterprises and others are established based on joint-ventures), these companies have benefitted from the patronage of economic nationalism given by the Indonesian government, which aims at domestic protection under the narratives of national interest. Business interests have more political options since their structural existence is dependent on the state (top) and consumers/market (bottom). The role of integrated firms in the poultry industry, which is the most industrialized industry in the agricultural sectors, is essential to achieving high-paced growth, modernizing the technology, and applying know-how to the industry. It thus allows efficient production capacity, leading to a more affordable protein source – an instrumental factor that is envisaged by big firms to achieve economic nationalism through the capitalist system by providing cheap commodities.

¹⁸ Author's Interview, B1, August 2020

¹⁹ Author's Interview, A1, August 2020

On the other hand, the role of small and independent poultry farmers in achieving economic nationalism has decreased, indicating the space to exert more influence is now even more limited. This is due to the fact that the numbers of independent farmers have fallen from 100,000 in 2008 to 6,000 today. And market share from 70% in 2007 to 18% in 2016. However, these groups' political resources, which are not associated with poultry companies, are limited and only reliant on the state. Simultaneously, their structural power at the bottom has little incentive because it consists of a small market and consumers. One way, if not the only one, to secure its business' resiliency is by resonating nationalism and populist politics. For these reasons, it explains why the TUs' dependency on the state to provide legal certainty for the small and independent poultry farmers is indispensable. It displays a unidirectional bottom-up dependency because their capacity to mobilize substantive political approach in opposing free market could only be done through the national populist narratives.

The political patronage that is usually given from political parties in the parliament intended to bypass the law that directly favors the industry has little evidence in the case of the poultry industry – although most of the parliament members are also businesspeople or directly involved in the business as a commissioner or other influential position, particularly in the mass media and resource and extractive industries, e.g., mining, coal, or palm oil. In this regard, political parties are not directly involved in the poultry business, while agriculture and livestock industries are still prone to corruption.²⁰

As Indonesia's democratization and amendment on political parties have shifted the political-economic dynamics, it also has changed the pattern of politics from politics of values and pragmatism to the politics of industry and pragmatism. It thus changed politics to become industrial politics, whose politicians are contesting

²⁰ For example, there was a collusion between PKS Chairman, Luthfi Hasan Ishaq, with the MoA in adding quota for beef import in 2014 (Wardah, 2013) and the corruption included 11 convicted individuals, including the parliament members regarding garlic import (Taher, 2019). Apart from that case, corruptions and collusions related to food and agricultural policies have involved the Speaker of Regional Representative Council of Indonesia (DPD RI), Irman Gusman, regarding quota of sugar import in 2017; and the former Minister of Law and Human Rights (2009-2011) and Constitutional Justice (2013-2017), Patrialis Akbar, regarding the importation of carcass in 2017.

to obtain direct access to power. It is expected that business interest could have influenced the legislative body in a way that would benefit certain industries or groups. In the case of the poultry industry, one legislator named Singgih Januratmoko has been elected representing Golkar, whose mission is to defend the interest of small and independent farmers.

Given the fact that the Indonesian poultry business is experiencing oversupply, the small farmers have been adversely impacted due to large firms' overproduction, which caused lower prices than the minimum prices determined by the MoT. However, the interaction among domestic actors has induced a protracted conflict of interest, both centrifugal and centripetal forces, over agricultural liberalization. PINSAR argues that there is a growing conflict of interest between the small and independent poultry farmers vis-à-vis integrated firms²¹, where the latter tends to monopolize the market by setting the production price lower than the cost of production, which is governed by the MoT (Bangsa, 2020), while the former suffers from predatory pricing strategy, which is aimed at winning the market. In September 2020, there was a protest against a big firm, such as CP Indonesia, because of its unfair competition in monopolizing the market.

Furthermore, there is an asymmetrical relationship between the TUs and the BIAs because of their hierarchical structure that paves the way for a dependency of the former to the latter than vice versa. As the TUs represents small and independent poultry farmers, it is more challenging to manage the organization into a voluntary movement than a business association due to insufficient resources for bringing a collectively shared agenda. Thus, PINSAR is more ideologically grounded, that is, populist rather than resourceful association. Although both also concern market interests, the preexisting market structure, which is dominated by foreign firms, creates a condition in which the TUs are more appealed to nationalist narratives – even though economic nationalism would eventually benefit integrated firms.

²¹ Author's Interview, B1, August 2020

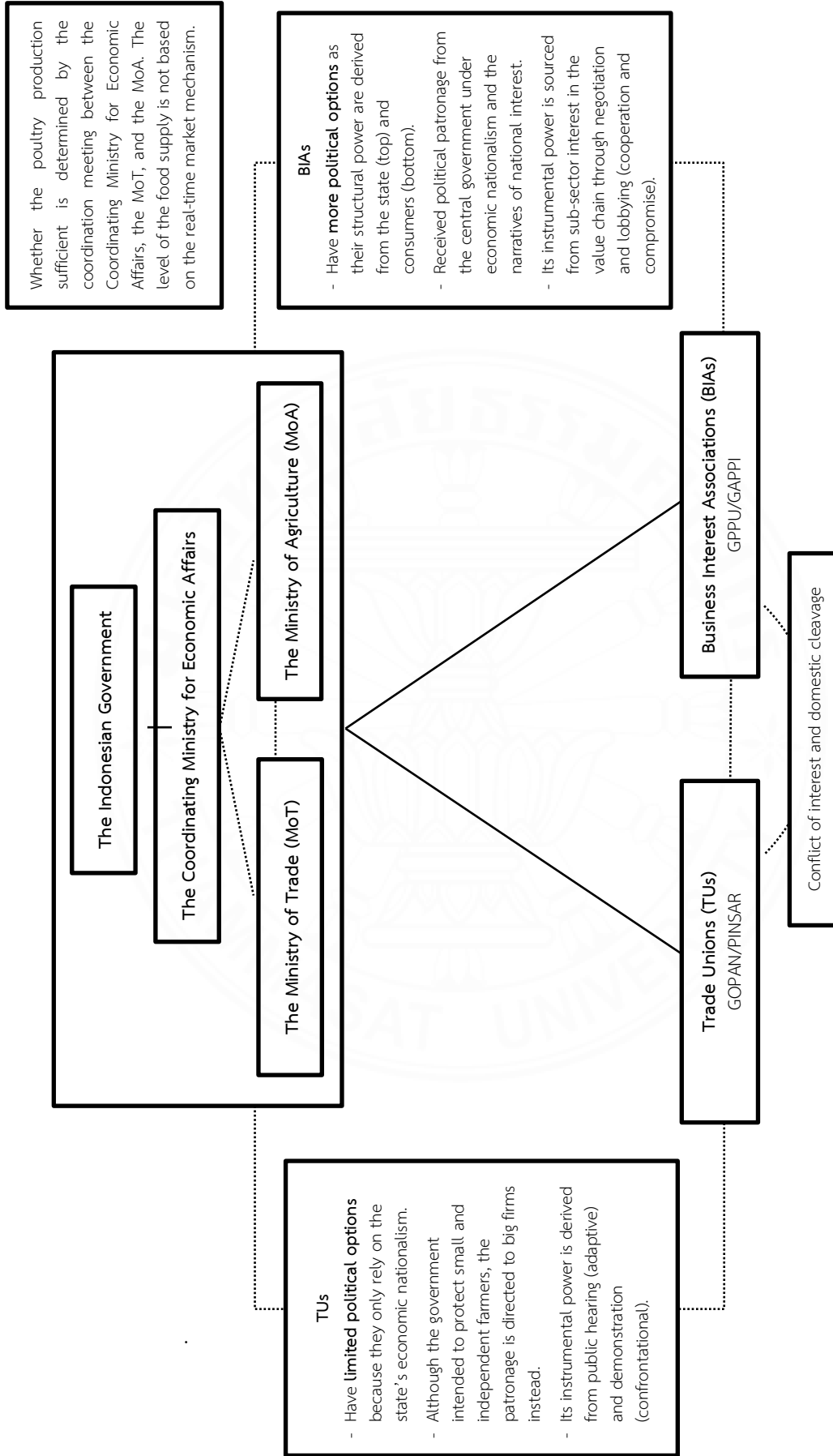


Figure 5.1 Political-Business Relations in the Poultry Industry

Source: Author's Analysis

Figure 5.1 shows the illustration of politico-business relations and the dynamics of domestic political actors in the poultry industry, which comprises of two interest group typologies. The Indonesian government had faced domestic political pressure and forces coming from the BIAs that represent big and integrated firms and the TUs that represent small and independent poultry farmers. It is argued that BIAs are a form of association that is more effective because it has a more effective capacity in influencing the government's decision making due to its sub-specific interest in the industry's supply chain. On the other hand, TUs have limited political options as they only could mobilize small political resources. In terms of the strategy, the TUs have taken a more adaptive and confrontational approach in defending its interest. It is therefore necessary to take into account the power relations between each actor that constitute the political game in the dynamics of the poultry industry.

The polarization within the poultry industry shows heterogeneous domestic interests in which there are contending perspectives on how to achieve self-sufficiency, food security, income distribution, and division of labor. The fact that the integrators or big poultry firms also sell their broiler chicken in the wet market has had rather adverse impacts on small and independent farmers who unionize themselves into trade unions. This demonstrates a domestic cleavage instead of a homogenous interest or what Putnam referred to as "hawk and dove."

This finding is also consistent with Hamilton-Hart's (2019) conclusion that although Indonesian populist nationalism in the food sector is somewhat benefitting oligarchic interest, "the beneficiaries are not entirely secured by a narrow focus on elite-owned agribusiness ventures." Hamilton-Hart also points out that post-New Order political economy dynamics have unleashed the aspirations of farmers as significant constituents. Further, illiberal food self-sufficiency is also a result of the consolidation of a middle farmer grouping, which is also the case in the poultry industry.

5.4 WTO and Indonesia's Two-level Negotiation

Brazil had challenged Indonesia's import restriction against its chicken meat and products through a legal mechanism in the global rules-based trade order. Brazil initiated a consultation in the dispute settlement process. However, the consultation was failed to resolve the dispute. Indonesia was alleged to be inconsistent with Sanitary and Phytosanitary Measures (SPS), Technical Barriers to Trade (TBT), Agreement on Agriculture (AoA), Import Licensing, Preshipment Inspection, GATT 1994.

During the process of adjudication, Indonesia defended its trade-restrictive measures by citing the general exception in Article XX of the GATT, which exempts some obligations in the WTO agreement in the name of greater public interest, including public health. However, the appointed panel to settle the dispute partly sided with Indonesia in several instances, particularly of those defenses that were related to halal certification due to the consumer structures, whom the majority are Muslim.

According to the WT/DS484/R (2017a), there were seven measures carefully scrutinized to assess the quality of measures by way of weighing and balancing the importance of the objective, the contribution of the measures to that objective, the level of trade-restrictiveness of the measures, and possible alternative measures that are less trade-restrictive. By this framework, according to WT/DS484/R (2017a), the WTO has concluded to prevail Brazil over Indonesia, so that Indonesia must lift its import restriction.

Indonesia was found to be inconsistent with the WTO agreement due to: (1) positive list that regulated on which animal could be imported; (2) domestic production prioritization and import restriction that depend on the government's definition of 'sufficient food supply' [not based on market mechanism]; (3) the MoT's greater authority to impose import ban in a force majeure event, as mandated in Trade Law; (4) certain intended uses, which only allowed the imported chicken to be sold in several places; (5) the decline of Brazil's health proposal; (6) non-automatic import licensing regime; (7) halal slaughtering requirement that is extremely bureaucratic.

While the WTO's judicial decision is legally bound, Indonesia conserves its embedded liberalism in the world trade forum and domestically governs autarkic measures. However, the measures that could have resulted in a violation of international compliance is depending on the degree to which domestic forces could pressure. In light of the domestic pressures derived from the BIAs and the TUs, which represent big and small players, it has incrementally drawn influence on the central government's decision.

Therefore, the MoT's role in multilateral trade negotiation is critical so that Indonesia could give the first-person understanding regarding the laws and other legal instruments to defend its national interest and other political goals, particularly those that are related to agricultural issues. Since Indonesia's agricultural policies are the most contentious issues, Indonesia needed to clarify the measures within the Trade Policy Review Mechanism (TPRM) and answer the questions from other member states – as information concerning other countries' laws might have derived from third parties, such as OECD, FAO, and other consultant reports.

The fact that foreign players would not stop attempting to enter the Indonesian market burdens the central government to prevent importation because once the license is granted, foreign players would dominate and hegemonize the domestic industry. However, the MoA and the MoT, as governmental bodies that are technically responsible for agricultural issues, have a contrasting ideological foundation, where both have parallelly received pressures from different actors. The constant pressures leave each ministry's hand-tied, thereby dissecting the MoA to be more protectionist for its internal pressure, while the MoT becomes more open due to external forces. Therefore, such perplexed and entangled pressures coming from different actors are politically imperative. As a result, the government has to maintain Janus-faced in two-level negotiations.

At the international level, the trade negotiators that bring national interest in the international forum, such as the WTO, are perceived as rational actors. The negotiation put forward by the officials is the accumulation of various domestic interests with varying degrees of influence exerted from different domestic actors. For this reason, it is necessary to clarify which possible causality that could become

an intervening variable. In contrast, external factors such as market-oriented and neoliberal trade regimes might be one way to explain the politics of economic development. The domestic factors, including the internal politics and social change, on the other hand, are noteworthy to be included in the picture – on which the latter becomes a thought-provoking discourse of whether domestic politico- and socio-economic, the class struggle or conflict of interest have played the significant role in the economic decision rationale.

5.5 Janus-faced Burden

In most cases, international organizations do not have the ability to enforce a legal decision. The WTO dispute settlement system has the legal capacity to enforce the ruling. However, the legal and international law perspective alone could not capture the dynamics among WTO members, which have asymmetrical power relations. In practice, politics and economic powers, and international relations have crafted how the WTO system and the international dynamics under a structuralized system are underway. Whereas most of the WTO's principles have been codified into agreements, a rules-based system is an essential feature with which it could regulate and enforce the agreed principles in the first place.

Because initiating a dispute settlement is a costly process, one country has to assess the benefits of such legal measures before bringing them to court. At this point, the government representatives are deemed as rational actors in the international negotiation process. Therefore, the government representatives must take into account the interest of the relevant stakeholders, including the complainant, the respondent, third party, and most importantly, their political-economic power, which also shapes the global political economy structure. Therefore, it is essential to strategically calculate the win-set of which its leverage can be brought onto the table of negotiation. Once the dispute is initiated, there is a point of no return. Thus, the dispute settlement system is a powerful tool in enforcing and regulating international economic negotiation (Lopes, 2019). In addition, the dispute settlement

system has a systemic impact on both the complainant and respondent party, which will determine the decision of the WTO DSB.

Lopes (2019) argues that political and economic power have influence over the WTO negotiations and the process of dispute settlement. The dispute settlement process could be a powerful tool for developing countries – especially with the benefits derived from the Dispute Settlement Understanding, which favors the interest of the developing country, e.g., Special and Differential Treatment (SDT). The fact that the trade dispute between Indonesia and Brazil is a dispute that is occurred between two developing and emerging economies has made it more complex. It is necessary to clarify the power relations between two countries since the emergence of the trade dispute is not only a matter of domestic regulation that has violated an international agreement but also a strategy to initiate a dispute settlement, which is costly and taking the time that can last for years. Even so, initiating a dispute does not guarantee an expected outcome, whereby the defeated country could or would not have immediately complied with the decision of the panel. Therefore, the need to allocate the necessary incentive in international negotiation through government representatives and international lawyers is indispensable for determining a socially desirable outcome.

Despite the fact that the trade dispute occurred between two developing countries, there is a common challenging factor faced by developing countries in the utilization of the dispute settlement mechanism. This is the retaliation, which at some point is allowed under the WTO rules, so long as the defeated country does not conform to the judicial decision after the result of dispute settlement circulated – even though retaliation is a temporary measure. Retaliation is the last legal option that could be taken by the prevailing country to challenge the non-compliance members that pose serious political and economic impacts for the continuance of the global trade regime. Before taking the retaliation procedure, the proposing country also needs approval from the DSB. In this case, Indonesia was afraid of retaliation and the ramification that would have followed.

As much as Indonesia would like to implement protectionist measures or regulatory protectionism through the enactment of legal instruments such as a non-

automatic license regime, it is still not worth persisting such nationalist and populist goals at the expense of multilateral trade relations. However, the legal instrument *per se* is only the symptom of broader economic nationalist narratives. Suspending or dismissal of the WTO membership would not rationally bring the most economically wise benefit for the non-compliance party. At this point, the implementation of retaliation is subject to legal analysis. One thing that should be noted beyond the legal analysis is that all process in the dispute settlement constitutes a systemic issue which requires rational actor and expertise from interdisciplinary backgrounds, not limited to politics, economics, and law – while also taking into account the domestic constituents that construct the political-economic dynamics of the acceptance of international negotiation. Therefore, retaliation is an important legal instrument to determine one country's bargaining power.

It is tempting to focus on the state-centric analysis. Nevertheless, the role of influential business actors could not be disregarded. The process of dispute settlement, on the other hand, would lead to a conflict of interest. This is because legal uncertainty is a factor that would have a great effect on the continuance of the global liberal trade order. The power of the economy is also important to be noted. The dependency on another country's economy would bring an adverse impact for a country that has stiff room in adjusting its economic and trade policies. Indonesia, for example, reached the peak point of its Indonesia-Brazil trade balance in 2011, accounting for US\$ 1.6 billion. Whereas in 2019, Indonesia's export only accounts for US\$ 900 million. Conversely, Indonesia's imports from Brazil have fluctuated in the last few years, wherein the trade balance in 2011 reached almost US\$ 1.9 billion and the highest point in 2014 with more than US\$ 2.5 billion and \$1.94 billion in 2019.

In this case, Indonesia faces a two-level burden where the two forces, domestic and international, forced the Indonesian government to beset the forces strategically. During the dispute settlement process, not only did Indonesia receive external pressure from Brazil as the complaining and prevailing party, which forced Indonesia to open the market access – Indonesia also received extensive pressure from both BIAs and TUs to close the market and restrict import. In response to this 'hand-tied' situation, the Indonesian government at first was reluctant to comply

with the first ruling 2017. However, Brazil had requested the DSB to enforce its decision on Indonesia. For the second time, Indonesia has lost the case, resulting in a change in the ministerial regulation that virtually allowed chicken importation, hence free market access.

Yet again, Indrasari Wisnu Wardhana, Foreign Trade Director, claimed that Indonesia would not import the chicken from Brazil (Siregar, 2019). Although Indonesia lost the lawsuit, the government confirmed that it could not force the business to import when there is no demand for chicken products from Brazil. In turn, the compliance with the WTO ruling does not necessarily imply an immediate importation from Indonesian business. In other words, losing the dispute in the WTO does not equal an obligation to import.

An important note in the negotiation process is that the government might have kept it confidential since the ongoing process of negotiation could have induced an adversarial effect within the domestic constituency. Rather, the government only invited the relevant stakeholders or business interest groups, including the BIAs (integrated firms) and TUs (small & independent farmers), to the consultation.²² Therefore, widely circulated information on the ongoing talks among the elites is not the wisest strategy as it only conveys rumors. Accordingly, the MoT Trade Advocacy Bureau also asserted that many mass media had quoted the wrong line regarding the central government's statements.²³ The MoT officials (2020) also states that domestic negotiation is more challenging to deal with. The MoT suggests that trade dispute is a sensitive issue in which domestic pressures, including public opinion, might have arisen to confront the government's move. Therefore, it is necessary to prepare public communication materials before announcing the deal.

It is also argued that the threat could also be deemed as a strategy in the negotiation (Lopes, 2019). The former trade minister, Enggar, affirmed that Brazil would seek authorization from the DSB to implement the retaliation if Indonesia did not comply with the WTO judicial decision for the second time (Aisyah, 2019).

²² Author's Interview, B1, August 2020

²³ Author's Interview, C3, November 2020

Furthermore, other Indonesian stakeholders, particularly those who invested money in Brazil, would have been affected by the retaliation process, which in turn might lose the money because of the WTO decision. Retaliation also might harm other industries as well, given the fact that Indonesia's economic ties with Brazil also constitute a significant amount of trade balance. It thus creates a dilemma whereby the Indonesian government not only has a two-level burden but needs to consider an interdisciplinary approach to address the trade dispute.

At the international level, the MoT Multilateral Trade Directorate reasserted the importance of the TPRM. The Trade Policy Review Body (TPRB) is responsible for ensuring the transparency of trade-related policies and regulations among the WTO members. Conducted in a regular meeting, TPRM is expected to provide a greater understanding of countries' trade policies by two mechanisms: first is the notification in which the government notifies the WTO secretariat regarding the changes of trade-related policies or regulations they have enacted; second is the WTO's regular supervisory in which the individual country's trade policy will be examined. The WTO (2011) also aims at improving the quality of public and intergovernmental debate in the TPRM, which will facilitate other countries' assessment of the global trading regulations.

The peer review conducted in the process of TPRM then forces the government to closely monitor the WTO agreement as well as to align with the multilateral trade arrangement, which in turn enable outsiders to understand other countries' trade regulations. Indonesia, for example, needed to provide a first-hand understanding concerning its trade-related regulations, particularly in the agricultural issues. Within the mechanism, other countries have the chance to draft the question and raise concerns regarding Indonesia's trade regulations. However, advanced economies like the US and the EU must be reviewed bi-annually, while other emerging economies will be reviewed every six years.

Another important note on the TPRM is that the WTO Secretariat does not have a legal capacity to interpret an individual's country regulations (Hoekman & Mavroidis, 2007). By having this mechanism, the multilateral arrangement could conduct surveillance while also putting pressure on the breaching country (Sacerdoti,

2010). Despite the incapacity to interpret and add or remove the obligation and rights outside from the WTO agreements, the dispute settlement mechanism could force one country (or rather, the 'losing' party) to adjust its domestic regulations in order to comply with the WTO without any additional obligation to pay the damage caused in the past.

In terms of implementing the multilateral trade order, the lawmaking process in the WTO is established on the dualism method: negotiation and judicial decision (Rumokoy, 2020). The former allows member countries to have an equal opportunity based on the consensus principle. It demonstrates a member-driven principle in the negotiation process, where the member states have the capacity to initiate a consensus-building agenda to undertake a certain goal. On the other hand, litigation also plays an integral role in WTO lawmaking, where the structural factors alongside politics and economic power will affect the decision.

With regard to conformity, the DSB is obliged to surveil Indonesia's compliance with the rulings. Indeed, it is impractical to comply with the ruling immediately. Indonesia has to reallocate the resources and amend the legal instruments that need to undergo a political process, constraint, and reality. However, Indonesia has no choice but to conform to the decision because the prevailing party could request retaliation, making it more difficult for Indonesia to conduct multilateral trade negotiations. However, compliance is also tricky for Indonesia because it would have undermined food sovereignty and farmer welfare. Therefore, to address these systemic and structural issues, Indonesia continues to defend its national interest by proposing a reform to the AoA to be more favorable toward developing countries through a rules-based approach, which is negotiated through judicial lawmaking. Despite the special and differential treatment (SDT) granted by the WTO for developing countries, it only serves as a tool to postpone compliance with the WTO law.

5.6 Contending Perspective of Agriculture Liberalization: Sitting on the Fence

Indonesia's loss in the WTO is perceived as a lesson learned for all involving actors, including the government, think-tank, businesses, and workers. An insider from one of the poultry firms suggests that the Indonesian government's elimination of import restriction has prompted poultry firms to 'restrategize the strategy' to compete with Brazilian products since the imported chicken would directly compete with these big companies. Thus, poultry firms started diversifying their products as part of the innovation strategy to incrementally expand their market share by shifting to a market-oriented approach.²⁴

Furthermore, integrated poultry firms were more likely to enjoy protectionism granted by the states, although several companies operated in the Indonesian poultry market are foreign-owned. One of the reasons why poultry firms operating in Indonesia benefit from market protection is to guard them against Brazil, which is the world's second-largest broiler producer and chicken meat exporter (Aranda et al., 2019). However, these big poultry firms have been enjoying the narratives of national populism. This means that these poultry firms have acquired the capacity to operate their business domestically under the agenda of economic nationalism, where the state addresses to achieve more affordable sources of agricultural products. In other words, it suggests that there is only a free market in disguise.

In contrast to that view, the Center for Indonesian Policy Studies (CIPS), a food-related think tank, offers a different perspective with regard to agricultural liberalization. The CIPS advocates a more technocratic and consumer-oriented standpoint in handling agrarian issues, including import and export licenses. The CIPS takes into account the economic considerations, whereby non-automatic licenses imposed by the bureaucratic polity would only result in the increased price of commodities (CIPS Indonesia, 2020). Moreover, the CIPS argues that a non-automatic

²⁴ Author's Interview, B2, October 2020

import license would harm farmers, who also require imported goods in the production process.

On the other hand, the farmer union has explicitly advocated its rejection of neoliberalism, including the capitalist global trade system and the WTO. It persistently contends that agricultural liberalization will come at the expense of the vulnerable group, paving the way for the creation of a hierarchy in which the economically powerful group (capital owner and foreign companies) exploit local farmers. Instead of demonstrating a trickle-down economic effect, the free market would eventually benefit the rich, while the domestic farmers were disadvantaged due to an unlevel playing field. However, what TUs have opposed to neoliberalism resonates with the orthodox Marxist analysis, whereby the capitalist system yields to market supremacy. At the same time, the domestic workers become laborers on their own land. Furthermore, the union argues that the free market is not omniscient and omnipotent and could not address the structural gap. Instead, it paves the way for socio-economic polarization, which will sprawl social integration and nationalism.

Such contrasting perspectives from different actors have shown that different interests would entail different attitudes toward agricultural liberalization. While it is typical that big firms – whose businesses have already dominated the national market, thanks to their capital, financial, human, and technological resources – would likely embrace foreign competition, small and independent poultry farmers would only be disadvantaged because of heightened competition. In this regard, it is argued that the international trading system under the game theory demonstrates how the market power has been an integral feature to the bargaining power in the market access negotiation (Luterbacher & Norrlöf, 1999). Although they do not incorporate the two-level game theory in their methodology because of the heavy emphasis on domestic politics, which is framed as the hindering factor vis-à-vis international trade commitments, this thesis has provided the analysis on the state and domestic actors behavior have rather pushed the “managed” trade instead of a cosmopolitan free trade.

5.7 Agricultural Trade in the WTO System: Critique and What's Next?

The unsettling Doha Round, which constitutes the current dynamic of the WTO system, has enabled member countries to institutionally conduct the multilateral trade arrangement. However, political narratives of economic globalization, by which the world's economy becomes more integrated, do not bring the most socially desirable outcomes. Within the WTO framework, member countries also pursue their self-interested nature, making international trade becomes trade distorted. Furthermore, in the agricultural setting, many countries have caused many trade-distorting effects, whereby domestic supports in the forms of subsidy and tariff and non-tariff barriers are imposed to protect certain businesses from a highly competitive world agricultural market. However, such competitiveness does not necessarily reflect perfect competition as suggested by the free market and efficiency. An imperfect market therefore reinforces the response of the state to deal with such issues, particularly within the agreed framework.

Many countries, including Brazil and Indonesia, have agreed upon the agreement of agriculture. Whereas both countries, as emerging economies, have the propensity to defend their agricultural interests in the world trade forum, the two countries have reconfigured the global agricultural trading dynamics in a way that the utilization of dispute settlement, albeit costly, becomes a common practice to achieve the political efficacy. Because the agricultural trading system, by which countries are actively defending their interest, has been institutionalized through the AoA, McMichael (2005) points out that such a system has exposed the logical contradiction of capitalism in which the concept of corporate food regime resulted in food sovereignty movement – a symptom of socio-ecological crises. Nonetheless, the constructed system within the WTO framework is rather a paradox in the sense that the negotiations held by the member states are driven by the interest of each party. Therefore, the system here is referred to as the complex dynamics to which the states interact. While international law literature often depicts the WTO laws as a rules-based regime instead of political, that body of literature defines power politics and play as somewhat the opposition to the law. Whereas the structural powers are

mainly derived from the market size (the currency of market power), the institutional factors still persist to constraint more powerful actors from arbitral agenda-setting, whereby the WTO decision-making process per se is consensus-based rather than veto (Elsig, 2006).

5.7.1 Non-trade Concerns and the Doha Round

The negotiation of the Doha Round has almost reached two decades in which the governments, trade negotiators, businesses, and all relevant stakeholders have been rigorous in contesting their vested interest. The Marrakesh Agreement that marked the liberal institutionalization of the global trade regime has been followed by the accompanying regulations to further institutionalize world trade. Many studies have put forward both pro and cons arguments concerning the negotiation process, pertaining to the issue of the liberalization of the trading system in which the involving actors have constituted a broad agreement yet contrasting opinion on the benefits from the WTO membership. Although trade liberalization in general, as argued by neoclassical economists, would reach general equilibrium, agricultural trade in the WTO is still the most contentious issue as it directly deals with many pressure groups who enjoy protectionism. In addressing the trade concession in the agricultural trading system, Indonesia, as one of the developing countries, has raised concerns regarding food security, rural development, and environmental protection in the Doha Round, which is also the mandate of this impassable negotiation.

Aside from the three mandates that are placed under the non-trade concerns, the deadlock of the Doha Round after years of negotiation is also caused by other issues such as inequality of economic growth level between developed and developing countries, jobs, and unsustainable source of income, and hunger and world's poverty. These reasons collectively reinforce the conditions of late capitalism, which expose the logical contradictions of capitalism, in which countries have advocated their international trade interest but also have imposed protection and protectionism to benefit their self-interested game.

The emerging economies have altered the power relations in the WTO system. As discussed, global swing states – both Brazil and Indonesia – are undoubtedly important in empirical and theoretical research of the global trading system, wherein the two countries have contested the traditional economic power (Hopewell, 2013). Moreover, the tension between economic power is the factor that hinders the development of the Doha Round (Boonekamp & Perez-Estevé, 2012). It is what has prevented further development of the Doha Round. The current WTO framework has enabled countries to contest their economic power in a system that disorganizes the traditional economic powers, thereby throwing the balance of power into disarray. Such fractured leadership thus aggravates the continuation of the uncertain multilateral trade agenda. It reconfigures the power arena at which the emerging economies have pushed forward not just about the international trade interest, but also the developmental challenges and agenda – in accordance with what the governments would have expected, that is, trade as one instrument to achieve a prosperous nation-state.

5.7.2 Institutionalizing Unfairness through the AoA

The objective of the AoA seeks substantial tariff reduction on agricultural support and protection, which many countries have imposed. It focuses on the prevention and correction of restriction and distortion in the global agricultural market. McMichael (2005) has put forward that the institutionalization of the agricultural trading system through the AoA is profoundly centered on the market mechanism. Furthermore, McMichael argues that the global trade regime and corporate food regime, in particular, are a result of logical contradictions of capitalism because transnational agribusiness' success is subject to the government's ability to gain market access in other countries.

The implementation of the AoA is certainly far from perfect. The concerns of global south countries in the Doha round have deadlocked. This is because the AoA, as Rumokoy (2020) argues, has institutionalized unfair agricultural trade between developed and developing countries. Furthermore, Hawkes and Plahe (2013) maintain that the AoA is a one-sided legal product for developing countries to have its own free-trade model while also acknowledging that rich countries have

continuously subsidized their agricultural sector heavily. Unlike Hawkes and Plahe's argument, Boonekamp and Perez-Esteve (2012) put forward that the implementation of economic liberalism would facilitate developing countries to exploit their comparative advantage in the global agricultural market.

As explained in the previous chapter, the AoA regulates three key issues: domestic support, export competition, and market access. In terms of domestic support, countries that provide domestic subsidies for the farmers are subject to be reduced. As the AoA has classified the type of subsidy into three categories, many developing countries have shifted to indirect subsidies to the farmers in order to compensate for the reduced export subsidy. In this agreement, the AoA allows green box subsidy because it does not directly affect the production price. However, export subsidies given by developed countries would eventually induce an uneven playing field for developing countries. Dumping through export subsidy will thus impact developing countries because they cannot compete with low-priced and subsidized products in the global agricultural market. In the case of the Indonesian poultry industry, it is still not competitive enough with the international market, given the fact that the feed for poultry production has to be imported, which in turn increases the production cost. Furthermore, subsidized products are often sold as food aid in the global south, which also comes with a lower price than the net-price in the existing market.

Aside from the fact that the domestic support addressed in the AoA contains technical languages in lieu of referring to as subsidy, tariffication is also the central issue in the principle of market access. Under the AoA, non-tariff barriers are subject to reduction. Tariffication, defined as a process of converting non-tariff barriers to equivalent tariff rates, is also undergoing an unfair mechanism, whereby dirty tariffication is used to set an artificial high domestic price and low market price, creating a higher tariff rate than the actual price. Furthermore, the commitment to tariff reduction is based on the tariff bound instead of the actual tariff imposed. **Figure 5.2** shows the general level of tariff between a developed and developing country and how the tariff bound and the actual tariff are applied in both developed and developing countries. The bound sets the highest MFN level at which a country

can impose the tariff for a certain commodity. However, the bound tariff is the one that is negotiated in the WTO rather than the actual tariff. It thus gives policy space for individual countries to impose the actual tariff, inasmuch as it does not discriminate against the trading partners. Therefore, the gap between the bound and MFN applied is called the binding overhang.

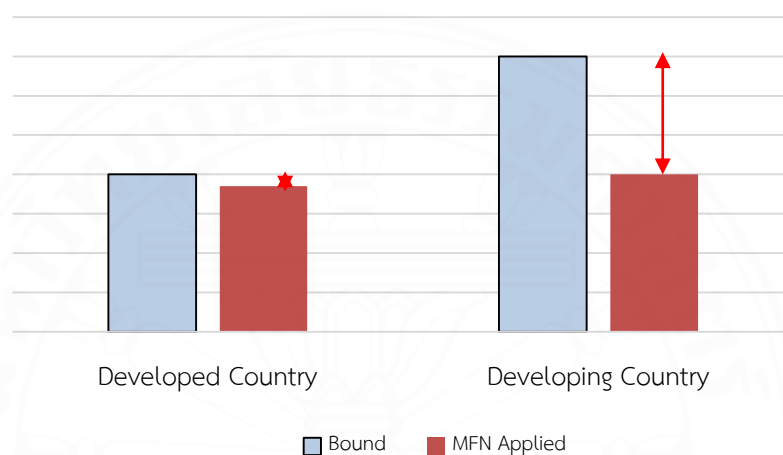


Figure 5.2 Binding Overhang Principle

Source: (WITS, 2010)

However, the tariffication is not the exact case of the Indonesia-Brazil trade dispute. Instead of tariffication, Indonesia had imposed non-tariff measures in which the government enforced both technical and non-technical barriers to essentially prevent the importation of chicken from Brazil. The non-automatic import licensing is one of the examples as to how Indonesia avoids the insecurity of foreign competition, thus exposing the fact that Indonesia's poultry market is prone to foreign competition – despite the national poultry market has been dominated by foreign players and a small number of domestic businesses.

Although the import restriction had been lifted up due to the pressures from the DSB and multilateral approach through the TPRM, which monitors the implementation of the ruling on Indonesia's regulations, the government still argues that once the foreign [chicken] products gained market access to the national market, it could not be stopped. Furthermore, the insecurity of losing other benefits

from the WTO membership as a developing country is intensified by the ramification, which would result in retaliation. Therefore, these external pressures have made Indonesia lift its import restriction and have been imperative to Indonesia's compliance with the global trade regime and the WTO framework.

Suggesting that the AoA alone is omnipotent and has the aptitude to dictate how the world agricultural trading system works is completely biased. The excerpt above does not suggest that the unfair foundation of the AoA exists in a vacuum. Instead, it is the result of self-interested actors that drive the multilateral trade agreement so that the AoA seemed to be institutionalizing unfair practices toward global south countries, including Indonesia, whose poultry market is not ready with fully open-trade policies. One of the central axes of the AoA is the principle of market access. Not only does it affect international trade in general, but market access is also the key to export-import activities. In this regard, the ability to obtain market access in any justifiable means through the WTO system, with or without consensus-based negotiation, is depending on the market size to which it is translated as the currency of the market power. This is, however, well elucidated by Elsig (2006), whose working paper analyzed the facet of powers, which is sometimes invisible, particularly in such complex WTO procedures, that might have been the focus of international law and international economics.

Despite the recognition of three different types of powers, i.e., procedural, ideational, and institutional, Elsig (2006) emphasizes the importance of structural power as it is the underlying classic variable in explaining the dynamics of how states interact in the WTO system. Furthermore, it borrows the theoretical premise of neoclassical realism, by which the states interact in the given space under the global trading system, i.e., the WTO, in which countries have contested their power. This precipitates the first classic IR debate whether countries are driven by their self-interested nature. Nevertheless, what differentiates between such a classical approach and the current WTO round is how the dynamics in the WTO as an institution that has legal capacity have shaped the global trading regime. Steinberg (2002) has put forward that the decision-making process in the WTO, in which countries attempted to achieve Pareto optimal outcomes in a consensus-based mechanism, is initially rules-based and power-based at the final decision.

This preexisting condition of such a global trading regime resonates with Indonesia's MoT arguments that directly deal with the world trade forum negotiation. The MoT official argues that the WTO system is asymmetrical and imbalanced, thus marginalizing countries like Indonesia, whose farmers are not entirely ready with open trade policy (Rumokoy, 2020). Furthermore, Indonesia also faces difficulties in exporting chicken due to its inefficiency and high production cost caused by imported feed at higher prices. Therefore, Indonesia is known for its defensive stance in international agricultural trade.

5.7.3 Food Self-sufficiency under the WTO Framework

In attaining food self-sufficiency, understood as the ratio of domestic production plus imports and minus exports, the WTO agreed that it is a legitimate policy objective, but under a condition in which the country does not violate the agreements. In this regard, the growing discourse that develops in the way the government implements self-sufficiency policy to achieve food security remains to be contested. However, the observable empirical policies implemented to achieve food security are a mixed approach. As examined in the previous chapter, Indonesia's strategy in addressing food policy is a combination between food security and food self-sufficiency as manifested in food law, where the term self-sufficiency is rhetorically conceptualized into different terms in the Indonesian language.²⁵ Conceptually, achieving food security is superficially the ultimate goal. However, in order to achieve the expected outcomes, it is not only political but also morally imperatives (Boonekamp & Perez-Estevé, 2012), whereby self-sufficiency is regarded as the means and the end to achieve food security. The government might have already identified the root cause of food problems (i.e., food insecurity due to inadequate supplies of food), but the way the government address the issue of food insecurity varies. One of the most popular strategies is to undertake the self-sufficiency policy. The difference between the vital objective of food self-sufficiency

²⁵ Food policy is classified into three different categories to achieve one single objective i.e., food sovereignty (*kedaulatan pangan*), food self-sufficiency (*kemandirian pangan*), and food security (*ketahanan pangan*). This objective paves the way for the state intervention in food affairs. (See Hamilton-Hart, 2019)

and food security has made it political. The fact that the nationalist movements in global South countries, including Indonesia, have appealed to populist politics has made food self-sufficiency policy an even more rational approach in addressing the late capitalism.

While the Indonesian government has its sovereignty to provide flexible space in pursuing the necessary policy to ensure food security, it must also take into account its obligation, under which the WTO has the legal capacity to enforce its fair-trade principles. Furthermore, the self-sufficiency goal is also an alternative answer to the inadequacy concept of food security. This is in parallel with Hawkes and Plahe's (2013) argument in which they frame the states are obliged to ensure the rights to food, which is termed explicitly in various international covenants. This suggests that rights to food do not necessarily equate to food security because self-sufficiency might lead to incorporation or rejection of the food security principles. In this regard, the WTO did not specifically define food security. Instead, it is under the non-trade concerns within the development round – the round that is heavily criticized by many due to its 'failure.'

On the other hand, Boonekamp and Perez-Esteve (2012) have shed light on the food security issue and how trade contributes to achieving it. As part of the WTO secretariat, they argue that international trade is instrumental in achieving food security. They perceive trade as a tool to achieve food security. However, it is this approach that perpetuates neoliberal interest or corporate food regime in which Brazil's agribusiness interest in the global agricultural market has been supported by immense technical supports and economic analyses by policy institute and is driven by collective business interest as the representation of transnational corporations in the form of associations (Hopewell, 2013).

However, it is the corporate food regime per se that is opposed by Indonesia. There is a growing distrust against the international market mechanism under current political economy dynamics, and it seems to be burgeoned under Jokowi's regime (Hamilton-Hart, 2019). In dealing with food-related policies, the extent to which the discursiveness on food sovereignty and self-sufficiency policies depends on nationalist rhetoric – which can be notably traced back during the 2014 and 2019 elections between Jokowi and Prabowo, whereas Prabowo is now de facto

in charge of food estate project as part of national security. Food security, by definition, is difficult to be accomplished in the case of Indonesia. Protectionist measures – oftentimes accompanied by the increased tax and the implementation of non-tariff measures such as technical and import-licensing requirements – have been counterproductive in addressing the heightened competition resulted from international trade due to the unintended consequences that might arise, i.e., trade dispute.

5.8 The Aftermath of the Dispute

The MoT suggests that Indonesia's loss at the WTO is a lesson for all relevant stakeholders, not limited to government, but also business, associations, and unions. As a result, the government will contemplate and scrutinize each policy's unintended consequences that could have resulted in a trade dispute. The government officials are aware of two-level negotiations and burdens because the situations that the government was in have left the government's hand-tied. However, such a dilemma requires strategic public communication and negotiations to address the aftermath of the dispute while also acknowledging the importance of vested-interests of all involving parties – both domestic and international.

In addressing the dilemma of a politically sensitive issue (such as import policies), strategic public communication is key to containing public outrage. Public masses still perceive the idea of import policies, particularly those of food-related affairs, as a predatory course of action because it would allow the foreign companies and interest to control the local market while undermining domestic producers and locally produced staple foods. Late capitalism has had a detrimental impact on Indonesia's economy in general and the competitiveness in agricultural production in particular. The insecurity toward the largest agroindustry power, i.e., Brazil – whose export strategy is offensive (Hopewell, 2013) and associations have played a key role in reshaping the global agricultural network (Søndergaard & da Silva, 2020) – has made Indonesia demonstrate the Friedrich List's manifesto, i.e., fertile industry protection. This approach is consistent with what the MoT has suggested that “farm owners, producers, and poultry farmers have to increase domestic poultry

competitiveness so that the consumers will not be tempted to buy chicken from Brazil, as Indonesia has to open the market access” (Karunia, 2020).

Whereas food security might have been the end goal, food self-sufficiency is the most rational set of policy prescriptions in the preexisting condition of the Indonesian political economy – albeit the structural change and agrarian reform have been advocated by many. This is because food security that encourages food imports for the sake of food access would have unsustainable impacts on Indonesian farmers. Thus, it requires an extensive economic model to calculate the adverse effects that might arise from food imports. One could argue that the food import would increase the food security level at which the food access is available for the consumer, hence showcasing the consumer stance. However, one crucial point that needs to be underscored is that the poultry import will have a detrimental impact on the producers, particularly for the small and independent farmers. On the other hand, Ferlito and Respatiadi (2018) argue that the reduction of production cost does not necessarily lead to a lower market price, as one would have expected in the case of increasing product competitiveness. Instead, they maintain that harmonization of ministerial regulations, parent stock and maize liberalization, and infrastructure improvement are vital to increasing product competitiveness as they will positively affect the cost of production.

Public communication is also necessary to contain people’s enagement due to imported products that might have injured domestic producers. At this point, the rhetorical notion of nationalism and populism will remain to be a political tool to appeal to their constituency. Populist nationalism in food-related affairs will entail the argument of sustainable domestic farming, which is centered on the implementation of self-sufficiency policy because neoliberal interest under food security will likely not be reflected in the domestic poultry farming, particularly small and independent ones, which are not competitive enough with Brazilian products.

On the other hand, Indonesia needs to avoid unnecessary backlash from other countries. In this regard, the WTO is structurally accountable for ensuring its member states conform to the agreements, hence putting a constraint for other

countries to arbitrarily embark on anarchical foreign policy.²⁶ Asymmetrical relations among nations, however, would reinforce the hierarchy in the global trade regime. The non-compliance act, in turn, will lead to political-economic ramifications and retaliation if Indonesia preserved its national interest at the expense of international relations. Due to two-level pressures, Indonesia must achieve a balanced approach.

Until the time of this writing, the MoA PKH Directorate-general, Nasrullah, has yet to receive an import request from businesses or importers to import chicken from Brazil (Karunia, 2020). Nasrullah mentioned that he met Brazil ambassador to Indonesia along with the trade attaché, requesting them to move on from discussing the poultry issues. However, Brazil still accuses that Indonesia has not fully complied with the WTO rulings. In this regard, Iman Pambagyo, Directorate-general of International Trade Negotiation, claims that the MoT is now coordinating with Brazil and the WTO concerning the compliance report (Yuniartha, 2020).

As such, Indonesia is seemed to show its willingness to conform to the WTO decision as a non-compliance act might result in other unintended consequences. If Indonesia continues to disobey the result of the panel report, it could have been retaliated by 47 countries – including Brazil and other countries who joined the trade dispute negotiation as the third parties.²⁷ As a result, Indonesia has amended the MoT 59/2016 regulations concerning the importation of animals. However, the decision to import chicken products is not subject to the government's authority. Instead, the decision of importation is subject to the market mechanism, whereby domestic businesses and importers have the interest to import such products.

²⁶ Institutional factors refer to neoliberal institutionalism – a concept that limit the power of countries, which Elsig (2006) conceptually and empirically notes to constraint the existing structural power in the WTO system.

²⁷ The third parties in DS484: Indonesia – Measures Concerning the Importation of Chicken Meat and Chicken Products include: Argentina, Australia, Canada, Chile, Chinese Taipei, European Union (28 countries before Brexit), India, Japan, Korea, New Zealand, Norway, Oman, Paraguay, Qatar, Republic of China, Russian Federation, Thailand, United States, and Viet Nam.

CHAPTER 6

CONCLUSION

The trade dispute between Brazil and Indonesia over the importation of chicken has provided the analyses as to why Indonesia has had difficulties in complying with the Panel recommendation after the DSB decided that Indonesia has lost the dispute. Integrating economic nationalism into the two-level game theory, this thesis allows in-depth scrutiny on Indonesian political and economic dynamics, in which self-sufficiency (over food security) has regained its prevalence in food and agricultural politics. Moreover, the use of a two-level game is far more important in trade issues rather than security issues, where the former's interests at the domestic level are more heterogeneous. Whereas the two-level theory reinstates three primary factors that determine each actor's win-set – i.e., level 2 preference and coalitions, level 2 institutions, and level 1 negotiators' strategies – understanding the underlying rationale on Indonesia's political economy requires a profound moral and philosophical yet historically sufficient concept through the application of economic nationalism. The application of economic nationalism, conceptually, operationally, and empirically, has allowed the core principle of this very concept to shed light on how politico-business relations over the course of political economy in Indonesia have been underway.

Economic nationalism as an ideology has already been embedded in policymakers, societies, and businesses. Embedded since the early independence, economic nationalism puts state-centrism in economic affairs under the cloak of national interest. This suggests that the default setting of the economic philosophy lies under the domain of nationalism. However, it also works hand-in-hand with closely linked business to the government in which the objective to achieve self-sufficiency has largely been dominated by big business (large integrator firms) that could provide more efficient production than small and independent players. Empirical evidence shows that nationalist and populist narratives have been used as a political language and tool to grasp a wider constituency for politico-bureaucrats

who seek for power to further justify top-down patrimonialism both in economic and agricultural reforms particularly in achieving self-sufficiency. This is also in line with the imagined and material versions of nationalism

Post-Suharto politics, followed by democratization, has facilitated a shift from politics of value to politics of industry because the latent capacity possessed by business interest could effectively exert their influence in shaping trade and economic policy. Whereas Suharto's New Order centralized the role of the state in economic development, democratization has moved the fashion from state-led developmentalism to business-led development. This demonstrates that the exertion of business interest on policymaking has been democratized and institutionalized, thus signifying a stronger role of business vis-à-vis state apparatus. In this regard, the role of the state is still significant in terms of manifesting protection and patron-client relationship into regulatory protectionism. Its ambition to achieve self-sufficiency through various legal instruments (constitution, national law, and ministerial regulations) then exemplifies how the legal-rational approach is implemented. The reasons why domestic protectionism prevailed is because the domestic public sphere and politics are assumed as favorable policies toward median voters. It rather shows a unique feature of democracy, where the state apparatus is also reliant on their constituency.

At the bottom level, domestic business interest is diffused. Within the poultry industry, there are various actors who do not always share the same interest. This is also the case when integrators and feed importers, who mainly represent big poultry firms, seek patrimonialism and protection to secure their self-interested priorities. On the other hand, small and independent poultry farmers do not necessarily have a shared interest with such big poultry firms. There are a domestic cleavage and conflict of interest between these actors who are represented primarily by the trade unions (TUs) (e.g., GOPAN and PINSAR) and the business interest associations (BIAs) (e.g., GPPU and GAPPI).

This factional interest in Indonesia's poultry industry has shown a different kind of conflict. Take, for example, how TUs confronted big poultry firms through series of protests due to the latter's capitalist nature in business. Furthermore, integrators also penetrated the wet market, which the TUs, along with

many traditional poultry farmers, argue that the wet market should have been their segment. Moreover, the integrators also control the vertical supply chain, upstream and downstream, inducing an anomaly in the market, where PINSAR contends that big poultry farms have done 'predatory pricing.'

The conflict of interest between the players in the poultry industry hence exposes an industry that is internally tenuous and conflictual. Within the two-level framework, domestic coalition and preference in the poultry industry constitute how the political indifference at the domestic level would determine the state's responses in complying with the result of the trade dispute. The interaction between the political actors in the poultry industry and the state is therefore dynamics. The consolidation of respective business players into different political actors has reflected complementary yet contrasting two political actors in the industry.

Both BIAs and TUs political powers are sourced from structural and instrumental powers. The BIAs capability in utilizing its bargaining position through a specific business interest in the supply chain stage enables big firms to have more political options because their structural power is consisted of the top (state) and down (large market size) structure. On the other hand, the TUs who comprise small and independent poultry farmers have a small margin in the industry. Their structural dependency that is solely based upon the patrimonial state has, in effect, limited political options. For this reason, small and independent poultry farmers are appealed to nationalist narratives, which are also attributed to populist politics. These fundamental asymmetric power relations among domestic actors thus benefit big firms more than small and independent poultry farmers.

The second type of power, i.e., instrumental power, is dominated by the BIAs rather than the TUs. By definition, lobbying is one influential instrument to struggle for power in politico-business relations. BIAs' instrumental power is sourced from its sub-sector negotiation and interest in the supply chain, which reflects cooperative tactics with a specific interest that enables a higher chance to obtain the expected outcomes. On the other hand, the TUs obtained their instrumental power from public hearing (adaptive) and demonstration (confrontational) within the agenda-

setting, aiming to create favorable policies and regulations for small and independent poultry farmers.

Although collusions among politico-business relations within the poultry industry have little evidence – aside from the case of the MoA’s instruction to cull birds early intended to stabilize the supply, which then resulted in 12 companies’ allegation of cartel-like behavior – the TUs still push the agenda to reform the regulations concerning the industry. One concrete example is when one former independent poultry farmer was elected to become a parliament member, who is continuously advocating the interest of small and independent farmers.

Within the state-centric analysis, state apparatus, which includes the Ministry of Trade (MoT) and the Ministry of Agriculture (MoA), has shown populist nationalism features within its policies to attain food security objectives through self-sufficiency measures. This is therefore translated into such legal instruments that further domestic interest at the expense of foreign interest. The role of political institution hence resonates with the second factor of two-level game analysis that determines the win-set as Putnam put forward. As discussed above, the diminishing power of the state vis-à-vis business interest is the exemplification of business-led and legal-rational developmentalism. Instead of fully driven by the oligarchic interest in the poultry industry – despite ubiquitous, given its predominance in the supply chain and the market share – the interest in the poultry industry is widespread among different actors. At this point, the role of chief negotiators, who metaphorically negotiate with two tables, is critical to satisfying the values with the two levels. Realist argument might have argued that the state is rational and value-maximizing. However, this is not the case as the decision-makers are value-satisficing, thereby presenting its image as Janus-faced, given its ambivalence at level 1 due to liberalization and multilateralism rhetoric.

Whereas the MoT is primarily in charge of multilateral negotiations and international pressures, the MoA has been facing inward pressures, mainly coming from domestic actors who frequently hold rallies against the governments. There is also an inconsistency among the state apparatus in terms of their ideological prescription, where the latter is more illiberal than the former. Although both are

using nationalism as an instrument to achieve the expected outcomes and popular policies, economic nationalism does not only come from a top-down approach. Instead, domestic business actors, both BIAs and TUs, have the latent capacity to influence the government's decision-making process by advocating economic nationalism. While both BIAs and TUs also have their different political powers and resources, all domestic actors have more win-set to influence the political decisions. Thus, it does not suggest that the domestic win-set would solely affect international negotiation. Instead, it is somewhat entangled.

At level 1, Indonesia's multilateral negotiation, as global south and a global swing state, in Doha round at the WTO is salient. In the WTO negotiation, the Doha Round has reached an impasse because non-trade concerns put forward by the net-exporter or -importer of agricultural products is in vain. Developing countries, including Brazil and Indonesia as emerging economies, have, in fact, altered the dynamics of the global trading system and challenged traditional economic powers, i.e., the US and the EU. The non-trade concerns advocated by the global south mark a slight structural adjustment in which the role of the WTO does not solely revolve around international trade anymore. Instead, it also emphasizes the WTO's role in rural development, food security, poverty alleviation, and environmental protection. Therefore, uneven economic development as a result of late capitalism has impacted small farmers who are vulnerable to liberal trade policy. In the case of Indonesia, it further justified mercantilist policy preference in accordance with the national interest. At level 1, Indonesia's win-set as a collective entity (state as a plural instead of singular) is tilted to defending small and independent poultry farmers, whose business competitiveness is more vulnerable to open trade policy.

The fact that the existing global agricultural trade system in the WTO has created a condition – in which market access becomes the axis of agricultural agreement – has perpetuated neoliberal interest through the corporate food regime (McMichael, 2005). The corporate food regime is where transnational corporations control the dynamics of the global agricultural network. This is consistent with Hopewell (2013) and Søndergaard and da Silva (2020) findings in which Brazil's agribusiness – followed by its transnational corporations, associations, policy institute,

and government – has become vocal and been offensive in articulating its interest in the global agricultural market through the use of dispute settlement in the WTO to gain market access in other countries.

Although the WTO functions to ensure a fair-trading system, the structural power – translated as the market size as the currency in the global trade system – constitutes a hierarchy that is unfair for Indonesia, whose poultry industry, despite mostly foreign-owned, is not competitive enough. Partially, it was the patronage given to some domestic actors that allow them to dominate the national market, whereas the small and independent poultry farmers can only be dependent on state protection. For this reason, it further underpins Indonesia's economic nationalism as part of domestic protection in the world trade negotiation despite its amendments on national laws and ministerial regulations. In fact, up until now, no chicken meat and products from Brazil have been imported to Indonesia. However, the government has no authority to directly import the chicken from Brazil. While the government already lifted up the import restriction, the importation of chicken from Brazil is contingent upon the demand from the market mechanism. Therefore, had the importers requested an import recommendation from the ministry of agriculture, the government should have allowed the import license. However, if Indonesia continues to pursue the non-compliance act, it will only bring negative consequences since Brazil could request retaliation to the Appellate Body, which will be followed by other 46 countries. This protectionism is therefore not worth to be continued, given the fact that retaliation could distort Indonesia's international trade interest in the liberal trade order.

In sum, there is no fifty-fifty negotiation. Whereas the WTO and other countries' forces remain to be structurally influential in pressuring the Indonesian government to comply with the WTO agreement, domestic actors have also put forward their aspirations through various means. Domestic actors' win-sets, as critically discussed above, have the aptitude to dictate Indonesia's trade policy. However, the government's hand is also tied by the international obligation to comply with the panel report after its loss at the trade dispute settlement. As non-compliance could have resulted in retaliation, Indonesia's strategy at level 1 requires strategic moves to

further continue gaining the benefits of multilateral trade negotiation and the privileges as a developing country (e.g., SDT). Thus, this condition has left Indonesia in a dilemma in which it must maintain its Janus face by integrating the embedded liberalism under the framework of economic nationalism and two-level game theory.



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LIST OF SEMI-STRUCTURED INTERVIEW QUESTIONS

A. Questions for Academics and/or Think Tanks

1. How will the dynamics of Indonesian political economy affect food security and food self-sufficiency goal?
2. What are the implications of food self-sufficiency goals to the international trade negotiation and order?
3. How does nationalism play a part in the Indonesian political economy discourse?
4. How will government-business relations in Indonesia explain a series of protectionist policies in agricultural sectors?
5. Why have trade liberalization in Indonesia, mainly that of agricultural sectors/strategic & critical goods, been difficult?

B. Questions for the Indonesian Government

1. How did the Indonesian government respond toward international pressure, particularly in the WTO case of DS484?
2. How did the Indonesian government manage the business association and trade union in the domestic negotiation?
3. How has food self-sufficiency shaped protectionist measures?
4. What is Indonesia's stance on poultry and agricultural trade liberalization?
5. What are the challenges in agricultural liberalization, particularly in the poultry sector?

C. Questions for Business Association and Trade Union

1. How did the business association and trade union lobby the government, and to what extent has it influenced the government's decision-making process?
2. Are there any benefits derived from the government's protection?

BIOGRAPHY

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Publications	<p>Iberahim, M. M. (2021). <i>The Art of Resistance in Thailand</i>. Kontekstual</p> <p>Iberahim, M. M. (2021). <i>The End of Neoliberalism, The Rise of Friedrich List Manifesto: Revisiting Indonesian Cases in Post-COVID-19 Scenario</i>. Political Science, Thammasat University.</p> <p>Hariati, M., & Iberahim, M. M. (2021). Indonesia's Interest in Winning Biodiesel Dispute in the WTO. <i>Revista UNISCI</i>. Under desk-review.</p> <p>Iberahim, M. M., et. al. (2020). <i>Building Connectivity Indonesian-European Union through Digital Economy</i>. Policy Brief for MOFA of Indonesia.</p> <p>Iberahim, M. M. (2020). <i>Deglobalization in the Midst of COVID-19?</i> Kontekstual</p> <p>Iberahim, M. M. (2020). <i>What Indonesia Could Learn from Thailand during the COVID-19 Crisis: An Untold Success Story</i>. SHAPE-SEA.</p>
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