

Analysis of the Driving Factors behind Indonesia Ratifying the IA-CEPA

2020

UNDERGRADUATE THESIS



**UNIVERSITAS
ISLAM
INDONESIA**

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UNIVERSITAS ISLAM INDONESIA

2023

**ANALYSIS OF THE DRIVING FACTORS BEHIND INDONESIA
RATIFYING THE IA-CEPA 2020**

UNDERGRADUATE THESIS

Proposed to the Department of International Relations

Faculty of Psychology and Socio-Cultural Sciences

Universitas Islam Indonesia

As a partial fulfillment of requirement to earn

Bachelor Degree in International Relations



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AUTHORIZATION PAGE

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Defended in front of Board of Examiners
in the Department of International Relations
Faculty of Psychology and Socio-Cultural Sciences

Universitas Islam Indonesia

As a partial fulfillment of requirement to earn
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Wednesday January 3, 2024



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I hereby declare that this undergraduate thesis is the result of my own independent scientific work, and that all material from the work of others (in books, articles, essays, dissertations, and on the internet) has been stated, and quotations and paraphrases are clearly indicated.

No other materials are used other than those contained. I have read and understood the university's rules and procedures regarding plagiarism.

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Wednesday January 3, 2024



Annisa Putri Hardiningsih

TABLE OF CONTENTS

UNDERGRADUATE THESIS	II
AUTHORIZATION PAGE	III
STATEMENT OF ACADEMIC INTEGRITY	IV
TABLE OF CONTENTS	V
ABSTRACT	VII
CHAPTER I	1
INTRODUCTION	1
1.1 Background	1
1.2 Research Question	4
1.3 Research Objectives	5
1.4 Research Scope	5
1.5 Literature Review	5
1.6 Research Framework	9
1.7 Provisional Argument	12
1.8 Research Methods	13
<i>1.8.1 Types of Research</i>	13
<i>1.8.2 Research Subject and Object</i>	13
<i>1.8.3 Method of Collecting Data</i>	13
<i>1.8.4 Research Process</i>	14
1.9 Thesis Outline	14
CHAPTER II	16
PRE-RATIFICATION OF THE IMPLEMENTATION OF THE INDONESIA-AUSTRALIA COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT	16

2.1. Conditions in Indonesia and Australia Before the IA-CEPA	16
<i>2.1.1. Economic Conditions of Indonesia and Australia Before the IA-CEPA</i>	16
<i>2.1.2. Relations Between Indonesia and Australia Before the IA-CEPA</i>	19
2.2. Interests and Dynamics of Indonesia's Attitude in the Ratification of the IA-CEPA	23
<i>2.2.1 Indonesia's Interests in the IA-CEPA</i>	23
<i>2.2.2. Dynamics of Indonesia's Attitude in the IA-CEPA Formulation Process</i>	25
2.3. Objectives of the IA-CEPA	28
 CHAPTER III	 31
 THE DRIVING FACTORS BEHIND INDONESIA RATIFYING THE IA-CEPA FROM THE PERSPECTIVE OF DECISION-MAKING THEORY	 31
3.1. Goals and Objectives of the IA-CEPA	31
3.2. Alternatives to the IA-CEPA	36
3.3. Challenges and Consequences of the IA-CEPA	41
3.4. The Decision to Select and Ratify the IA-CEPA	46
 CHAPTER IV	 50
 CONCLUSION	 50
4.1. Conclusion	50
4.2. Recommendations	52
 REFERENCES	 53

ABSTRACT

This research aims to understand what factors drove the Indonesian government's decision to ratify the IA-CEPA with Australia as a new trade agreement. To support the analysis of Indonesia's decision to ratify the IA-CEPA, this research uses Graham Allison's decision-making theory. In this study, the author sees that the bilateral relationship between Indonesia and Australia tends to be dynamic, but there is an imbalance in export performance between the two countries, where Australia dominates the value of exports to Indonesia compared to Indonesia's exports to Australia. Therefore, the Indonesian government ratified the IA-CEPA based on various potential benefits that could fulfill its national interests. These potential benefits included increased exports of Indonesian commodities to Australia due to the elimination of export barriers, the potential for foreign investment to enter Indonesia, and the improvement of the quality of human resources through job training in Australia. In addition, Indonesia could also fulfill domestic needs with the entry of commodities from Australia. It can be seen that all these considerations were based on rational choices by the Indonesian government.

Keywords: *IA-CEPA, Indonesia, Australia, Exports, Imports.*

CHAPTER I

INTRODUCTION

1.1 Background

In the life of the state, there are people who have many needs that must be met. Some countries cannot meet their own needs, because there are several countries that cannot produce their own resources due to certain limitations. To meet the needs of the community, one country usually depends on other countries, across aspects such as economic, health, goods, and services. This is why countries carry out international cooperation with other countries.

The relationship between Australia and Indonesia was established at the beginning of Indonesia's independence, but became closer from 1951. The two countries, in addition to having bilateral relations, have also been dubbed by other countries as friendly countries because they have had diplomatic relations for more than 70 years (Roza, 2009).

The relations between Indonesia and Australia are of utmost importance to both countries. Despite being referred to as 'friendly partner,' it cannot be denied that they have a history of occasional conflicts. These conflicts arise due to significant differences in cultural and political perspectives, leading to differing primary objectives in their relationship.

When other countries compete in the trade sector, Indonesia and Australia also work together to increase their trade but with mutually beneficial goals. One way to increase trade is by reducing trade costs. Reducing the cost of trade does not happen without reason, and here it has happened because it is contained with one of the international cooperation agreements signed by Indonesia and Australia.

Indonesia and Australia are known to have signed an economic cooperation agreement that has been ratified, namely the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) in 2020. This economic cooperation agreement went through a long process in recent years before it was officially signed in 2020. This collaboration focuses on international trade policies that provide privileges between the two, such as customs duties that are subject to 0% tariffs for Indonesian products entering Australia. This is considered important by Australia because it will affect economic integration in its territory. Prior to signing the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA), Australia and Indonesia joined the Asia-Pacific Economic Cooperation (APEC) which has the aim of encouraging economic activity accompanied by investment or providing capital to countries in the Asia-Pacific region.

The beginning of the IA-CEPA itself can be seen from 2005, where Indonesia and Australia both agreed on the Joint Declaration of Comprehensive Partnership Indonesia-Australia. This agreement became the basis for the governments of Indonesia and Australia to conduct feasibility studies related to the discourse of the Free Trade Agreement (FTA) between the two countries in 2007 to 2009 (Syukra & Cahyaputra, 2019). Then in 2010, Prime Minister Julia Gillard made a bilateral visit to Indonesia which aimed to increase the commitment of bilateral cooperation between Indonesia and Australia to a comprehensive level. This was realized with a joint decision between Indonesia and Australia who agreed to start IA-CEPA negotiations to increase trade and investment flows between the two countries while strengthening bilateral relations that benefit both Indonesia and Australia (Australian Department of Foreign Affairs and Trade, 2010).

The initiation of the IA-CEPA negotiations was driven by Australia and Indonesia with an urgent need to enhance a more balanced economic relationship with greater engagement and investment opportunities for Australia and Indonesia (The Strait Times, 2018). The first IA-CEPA negotiations were held on March 26-27, 2012 in Jakarta with the first stage of building bilateral cooperation between Indonesia and Australia and agreeing on the types of cooperation as well as trade in beef imports (Rusmin, et al., 2021).

Despite bringing hope to Australia and Indonesia, there were various problems that occurred during the IA-CEPA negotiation process. In 2013, the IA-CEPA negotiations were temporarily suspended due to the Australian Government's wiretapping of the then Indonesian President Susilo Bambang Yudhoyono and several other officials. This triggered political tensions and the suspension of cooperation in various sectors, including the IA-CEPA negotiations (Rusmin, et al., 2021). In addition, Australia's decision to plan to move the Australian Embassy in Israel from Tel Aviv to Jerusalem also affects the IA-CEPA negotiations. This is because Indonesia recognizes Jerusalem as part of Palestine so that the discourse is considered to tarnish Palestinian sovereignty (Laksmana, 2018).

Prior to the Covid-19 pandemic, trade relations between Indonesia and Australia were considered to have the potential to progress further with the implementation of the IA-CEPA (Roza, 2009). Prior to the pandemic, Australia had provided economic assistance to Indonesia of \$255.7 million in 2019-2020 (Greenlees, 2020). So, the IA-CEPA would be added value by creating the existence of an economic cooperation agreement between Indonesia and Australia.

Then, problems arose at the peak of economic relations between Indonesia and Australia. At the beginning of 2020, the Covid-19 was attacking many countries including Indonesia and Australia, which became a global problem. Many countries then became focused on saving themselves from threats to their country's security and were reluctant to help overcome the economic crises of other countries.

Previous research has discussed bilateral relations between Indonesia and Australia across many aspects, such as security, economy, politics, and culture. One study examined the cooperation between Indonesia and Australia in dealing with the Covid-19 pandemic (Mentari, 2021). Another study analyzed Indonesia's diplomatic relations with Australia in the field of maritime security (Paramitha, 2017). Although there have been many studies that have examined the relationship between Indonesia and Australia, none of these have examined the driving factors behind Indonesia's ratification of the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) in detail.

Thus, in this research the author discusses in this thesis is a deeper analysis of the driving factors behind Indonesia certifying the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) 2020. An additional aim was to investigate the cooperation pre- and post-the ratification of the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) which led Indonesia to ratifying this economic cooperation agreement.

1.2 Research Question

Why was Indonesia willing to ratify the IA-CEPA as the new trade agreement with Australia?

1.3 Research Objectives

The objectives of this research are:

1. To analyze the factors influencing why Indonesia ratified the IA-CEPA.
2. To identify the consideration process of Indonesia's policy before ratifying the IA-CEPA.

1.4 Research Scope

This research focuses on the factors that led Indonesia to ratify the IA-CEPA as the economic cooperation between Indonesia and Australia, with a specific focus on the 2020-2023 period. The author chose to start the research in 2020 because that year was the first year of Indonesia's ratification of the IA-CEPA. This research is also until 2023 because the cooperation agreement is still ongoing. The scope of this research is limited to economic cooperation carried out by Indonesia and Australia before the ratification of the IA-CEPA to ensure that the discussion is not too broad. The cooperation agreement only discusses economic cooperation.

1.5 Literature Review

Several journals and research have similar topics and thus have been used as references in this research. The following paragraphs detail studies that discuss the relationship between Indonesia and Australia.

The first is research written by Astari Marisa in 2020, published in the Journal of Transborder with the title "Indonesia-Australia Bilateral Relations: Australia's Interest in Ratifying the 2019 Indonesia-Australia Comprehensive Economic Partnership Agreement 2019". This study explains that the existence of the IA-CEPA has affected bilateral relations between Indonesia and Australia,

especially after Australia ratified the IA-CEPA agreement. The research clearly explains what factors made Australia willing to ratify the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA), such as advantages in Australia's security and economic sectors. In this study, most of the discussion is focused on Australia's human development assistance for Indonesia, bearing in mind that bilateral relations produce mutually beneficial cooperation, not just have one country providing assistance to another in the establishment of bilateral cooperation. The scope of this study was quite broad. Thus, in this study, the author set the relationship of economic cooperation between the two countries and how this influenced Indonesia's willingness to ratify the cooperation agreement as the research topic so that the scope is not too broad and only focuses on the driving factors behind Indonesia certifying the IA-CEPA.

The second journal was written by Alvira Rizki Wulandari and Dadan Suryadipura in 2021, published in the Padjadjaran Journal of International Relations with the title "Indonesia's Commercial Diplomacy towards Australia in the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) on Joko Widodo Government Era (2014-2019)". This study explains that the signing of the IA CEPA was a driving factor in increasing the economic diplomacy carried out during the Joko Widodo government era which increased the capabilities of the country's diplomats and as well as improved the country's economic relations in the market, both traditional and non-traditional markets. This research only discussed the factors influencing the formation of Indonesia's commercial diplomacy towards Australia in the IA CEPA agreement and did not discuss the driving factors behind why Indonesia wanted to ratify the agreement. Therefore, the

author of this study chose the relationship of the economic cooperation between the two countries which led to Indonesia's willingness to ratify the cooperation agreement as the research topic in order to keep the research focused on the driving factors behind Indonesia certifying the IA-CEPA.

The third research was conducted by Bahjatul Murtasidin in 2021, published in the Journal of Government Dynamics with the title "Indonesia's Political Economy Interests in the Comprehensive Economic Partnership Agreement with Australia". The study describes the economic cooperation agreement between Indonesia and Australia, namely the Comprehensive Economic Partnership Agreement (IA-CEPA). The economic cooperation carried out by the two countries is expected to be the initial foundation for strengthening relations between trading partners in order to open access to the international investment market. However, this study only discussed Indonesia's political-economic interest in the IA CEPA agreement and did not discuss relations between the two countries before the IA CEPA agreement. So, in this study, the author has focused the research on the relationship between the two countries prior to ratification which was part of the driving factors for the ratification of the IA CEPA.

The fourth study was conducted by Ilham Agustian Candra and Arie Kusuma Paksi in 2021, published in the Noken Journal of Social Sciences with the title "Australia's Motivation to Provide Foreign Assistance to Indonesia in Handling the Spread of COVID-19 in 2020-2021". The authors were quite clear in their explanation of Australia's assistance as Indonesia's partner country, especially during the Covid-19 pandemic, through the implementation of the IA CEPA cooperation agreement. This agreement will also be used to develop scientific

research that will be used as Australia's political image for international interests. This study, however, discussed the impact of Covid-19 on the cooperative relationship with Indonesia in the health sector as state security and government stability and only focused on the impact of Covid-19 and Australia's political interests. It did not discuss Indonesia's reasons for being willing to cooperate with Australia as agreed upon in the IA CEPA agreement. So, in this study, the author narrowed the scope to the topic of the reasons why Indonesia wanted to cooperate with Australia in the form of the IA CEPA agreement.

The fifth study was conducted by Yeti Andriani and Andre in 2017, published in the *Andalas Journal of International Studies* entitled "Implications of the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) on Indonesia's Foreign Trade". This research states that the economic cooperation between Indonesia and Australia in the IA-CEPA is considered to be able to contribute to trade between the two countries. The implications of IA-CEPA will help make it easier for Indonesia to export to Australia, potentially increase Indonesian foreign investment from Australia, reduce trade barriers, help the process of technology transfer between both parties, and maintain food security through the points contained in the IA-CEPA agreement. This research viewed IA-CEPA as a complementary collaboration for both parties. However, it was also only focused on the implications of IA-CEPA cooperation on trade and bilateral relations between Indonesia and Australia without discussing Indonesia's interests in ratifying the agreement. Therefore, this present study focuses on the factors and choices that encouraged the Indonesian government to ratify the IA-CEPA.

1.6 Research Framework

To answer the formulation of a problem in a study, researchers need analytical thinking to relate the problem to the theoretical basis or concepts that are relevant to the topic. In the Analysis of the Driving Factors behind Indonesia Certifying the IA-CEPA 2020, the researcher used the theory of rational actor which is a derivative of decision-making theory. Decision-making is a theory that explains how decisions can be taken by individuals, groups, or organizations who are actors in the decision-making. The components or indicators derived from decision-making theory include rational actors, government politics, group thinking, and the organizational process.

According to Graham Allison, the concept of the rational actor is that predictions about what a nation will do or would have done are generated by calculating the rational thing to do in a certain situation, given specific objectives (Allison and Zelikow ,1999). The concept of "rational actor" is closely related to the theory of decision-making because the two are interrelated. Decision-making can be said to be the factors that influence a decision, while the rational actor is who is affected by these factors, so it can be said to be a decision-making role. Allison has also said that the attempt to explain international events by recounting the aims and calculations of nations or governments is the trademark of the Rational Actor Model (Allison and Zelikow, 1999). For each, the explanation consists of showing what goal the government was pursuing when it acted and how the action was a reasonable choice, given the nation's objective. This cluster of assumptions characterizes the Rational Actor Model (Allison and Zelikow, 1999). The assumption of rational behavior is not just of intelligent behavior, but of behavior

motivated by a conscious calculation of advantages; a calculation that in turn is based on an explicit and internally consistent value system (Allison, 1971).

To support this research, the researcher used the theory of government politics, group thinking, and the organizational process as part of decision-making. Government politics is in the hands of the government, but the process is not solely handled by the holder of the highest power but involves political actors who do not all have the same goals. Thus, they must go through a negotiation process. Meanwhile, this group thinking theory, in its decision-making, prioritizes mutual agreement rather than conflict to reach the decisions that will be taken because it is felt that this will result in a lack of harmony of views within the group which will lead to divisions in the decision-making group. The organizational process is a decision-making process whose process prioritizes hierarchy in the organization. In an organization, decision-making must be based on established norms and rules that must be adhered to according to procedures within the organization. So, the hierarchical organizational structure has a big influence on decision-making in the organizational process.

According to Graham Allison, in rational actor theory there are 4 stages in decision-making:

1. Goals and objectives

Goals and objectives are preferences for the results of a series of uses based on their values and objectives. This can be said to be what discourse can be presented.

2. Alternatives

Researchers are required to choose between a series of alternatives for decision making which will later be presented to demonstrate that, from the existing alternatives, the chosen option is the most rational.

3. Consequences

Consequence takes the form of an analysis of the consequences of each choice outcome from the chosen alternative (if the alternative or option described above exists).

4. Choice

Choice contains the rational reasons for choosing an alternative whose consequences have been analyzed so that this choice becomes the most favorable choice in decision-making. This could be explained by the concept of the rational actor model which analyzes the goals and objectives of the policies and then continues analyzing what the available alternatives are and then the consequences of each alternative until a final choice is made.

These 4 categories are an understanding of concepts from rational actor theory to explain decision-making, political science, economics, and game theory to base our less structured assumptions on so as to make choices with consistent rationality (Allison and Zelikow 1999, 40).

The reason the researcher chose the concept of rational actor theory is because the actor who ratified the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) was the Indonesian government. The

Indonesian Government took into account rational things and made reasonable decisions to achieve the country's goals. The decisions taken were also without any interference from political actors who did not all have the same goals; there was no group interference, and there was also no negotiation process with existing organizations - all decisions were taken by the Indonesian government itself. According to the researcher, this theoretical concept is very relevant to the formulation of the research problem where the Indonesian government's decision to ratify the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) consciously took into account the actions taken rationally.

1.7 Provisional Argument

By ratifying the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA), the aim was to improve the country's economic aspects. This can be seen from the 4 theoretical indicators: goals and objectives, alternatives, consequences, and choices which are rational. This agreement, apart from making it easier to expand the market for Indonesian products, has also increased the quality of existing human resources through the provision of scholarship programs, internships, and opportunities to work in agreed fields. The cooperative relationship also generates a strong sense of trust from investors to invest in Indonesia. These were the driving factors behind Indonesia ratifying the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA).

1.8 Research Methods

1.8.1 Types of Research

The research method that will be used in this research is a qualitative research method, where research is carried out to describe issues with analysis using relevant concepts. Data were obtained from various literature sources analyzed as secondary data. Researchers use qualitative research methods because the problems discussed are not mathematical, statistical, nor focus on numerical data.

1.8.2 Research Subject and Object

The subject of this study, as determined by the researcher, is the government of Indonesia. The object of this research is the driving factors behind the rational calculation of Indonesia in the ratification of the IA-CEPA 2020. Thus, in this study, the author will analyze the Driving Factors behind Indonesia Ratifying the IA-CEPA 2020.

1.8.3 Method of Collecting Data

The data collection method used in this research was a literature study done by collecting secondary data from the literature. Secondary data is data not obtained directly through the main source as a witness. Instead, the data obtained is in the form of document notes from other sources such as books, journal articles, scientific journals, websites, official government websites, and the internet that is relevant to the research. The data that has been obtained is then compiled by researchers and analyzed to answer the formulation of the problem or research. The research can be presented systematically based on research facts.

1.8.4 Research Process

Before a researcher conducts research, the researcher first conducts a literature study by collecting several data sources with the data collection methods that have been selected. The sources of the data are very important for the author to be able to know the ongoing facts. Researchers must focus on data sources related to the topic discussed. The data collected in this study was analyzed and the results described in the writing of this study.

1.9 Thesis Outline

This thesis has been divided into four chapters. The systematic division into chapters is as follows:

Chapter I: This chapter contains the background of the research, the formulation of the problem which is the main focus of the selected research topic, the research objectives that the author intends to achieve to solve the formulated problem, the significance of the research which explains the relationship between the formulated problem and the study of international relations, the scope of the research, the literature review containing a brief discussion of the references used in this study, the theoretical basis used as the analytical tool for the research topic, and the research methods containing the type of research, subject and object of the research, and the data collection method and process.

Chapter II: This chapter outlines the situation prior to the ratification of the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). It includes the introduction to the study and the results of the research conducted. The information discussed is in the form of an explanation or understanding of the economic condition of Indonesia pre-ratification of the Indonesia-Australia

Comprehensive Economic Partnership Agreement (IA-CEPA) and the driving factors behind why Indonesia ratified the agreement.

Chapter III: This chapter contains the analysis or the findings of the author used to answer the formulated problem using the theoretical basis chosen in this study. In this chapter, the author analyzes the research problem appropriately in accordance with the science of international relations studies with accurate and original results. These results are a contribution to the science of international relations studies.

Chapter IV: This chapter contains the conclusions and recommendations.

CHAPTER II

PRE-RATIFICATION OF THE IMPLEMENTATION OF THE INDONESIA-AUSTRALIA COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT

2.1. Conditions in Indonesia and Australia Before the IA-CEPA

2.1.1. Economic Conditions of Indonesia and Australia Before the IA-CEPA

The IA-CEPA exists as bilateral economic and trade cooperation between Indonesia and Australia which aims to jointly improve economic conditions and the trade situation that exists between the two countries. Indonesia was one of the countries that had fairly good economic growth after the Asian financial crisis from 1997 to 1998. This was partly due to Indonesia's active participation in international trade. In 2011, Indonesia's export value reached 203.4 billion US dollars, while its import reached 177.4 billion US dollars. This was economic growth of 6.2 percent or 7,287.6 trillion rupiah. Furthermore, in 2012, Indonesia's trade export value reached 190 billion US dollars and imports reached 191 billion US dollars. Even though economic growth decreased to 6 percent in this year, Indonesia's national income reached 7.727 trillion rupiah (Fitriani, 2019).

However, since 2012, Indonesia's export figures continued to decline until 2015. In 2013, Indonesia was only able to achieve an export value of 182.6 billion US dollars. Indonesia's export figures decreased again in 2014 to 176.2 billion US dollars meaning Indonesia's economic growth rate reached 5 percent. In 2015, Indonesia's export performance declined again to 150.2 billion US dollars. Thus, it can be seen that the value of Indonesia's exports from 2011 to 2015 decreased by 26.16 percent (Ministry of Trade, 2016).

The reason behind the decline in Indonesia's export performance throughout 2011-2015 and into 2016 consisted of several factors. First, demand for Indonesian commodities from major trading partner countries, such as the United States and China, slowed. Furthermore, Indonesia's export commodities were still dominated by natural resource commodities and low-technology products which caused Indonesia, at that time, to experience difficulties in competing in global trade (Ministry of Trade, 2016). As a result, Indonesia's export-import sector requires more attention to increase its value.

In the first period of Joko Widodo's administration, Indonesia issued a deregulation policy, specifically an economic policy package. Thanks to this policy, Indonesia's economic growth improved in 2017, which in the fourth quarter recorded growth of 5.19 percent (CNBC Indonesia Research, 2018).

Australia's economic and export-import conditions also need to be considered to determine the urgency of ratifying the IA-CEPA between Indonesia and Australia. In the Australian import-export sector, basically, the value of Australia's exports experienced a quite positive trend after the global financial crisis in 2008. In 2008-2010, the value of Australia's exports fell to 250 billion Australian dollars. However, in 2010-2011, the value of Australia's exports increased to around 300 billion Australian dollars. Then in 2011-2012, the value of Australia's exports increased again to around 310 billion Australian dollars. However, this figure decreased in 2012-2013 to 300 billion Australian dollars before increasing again to 331.2 billion Australian dollars in 2013-2014 when Australia exported the majority of its commodities to the Asian continent (Anderson, 2014).

Australian imports also need to be considered. At least 59.8 percent of importers of commodities entering Australia come from the Asian continent. In 2013-2014, Australia recorded an import value of 338 billion Australian dollars with annual growth reaching 10 percent each year. Commodities imported by Australia are mostly natural resource commodities, motorized vehicles, as well as travel and delivery services (Anderson, 2014).

In general, Australia's economic conditions experienced a fairly dynamic positive trend. Australia's trade balance reached a positive value at the end of 2016 at 4,503 million Australian dollars. This positive trend continued except in April 2017 when the trade balance value reached minus 377 million Australian dollars, then worsened again in December 2017 to reach minus 1,891 million Australian dollars. At the end of 2018, Australia's trade balance reached 3,681 million Australian dollars (*Department of Foreign Affairs and Trade Australia*, 2018). The positive trend in the Australian economy in 2017-2018 was caused by several factors, such as domestic demand, investment, and exports of non-mining products. This non-mining sector then contributed to the development of the Australian economy (Nguyen and Wang, 2019).

However, the Australian economy experienced changes in 2020. Due to the Covid-19 pandemic, Australia's GDP growth in 2020 was minus 0.3 percent. The export sector experienced minus 1.9 percent compared to the previous year's growth of up to 4 percent. Australia's export value in 2019-2020 also did not experience significant growth with a value of 475 billion Australian dollars, which was showing a tendency to slow down (*Department of Foreign Affairs and Trade*

Australia, 2020). Disruptions to the supply of raw materials in Australia are one of the reasons for the slowdown in Australian exports in 2020 (OECD, 2021).

The Covid-19 pandemic has also had an impact on the export-import sector in Indonesia. In mid-2020, Indonesian commodities amounted to 13,069.2 million US dollars, a decrease of 8.36 percent compared to mid-2019. This decrease was influenced by a significant decline in exports from the oil and gas and non-oil and gas sectors. Indonesia's export value reached 103.16 billion US dollars in mid-2020, which is a decrease of 6.51 percent compared to 2019 (Prayoga, Ryansyah, and Jannah, 2022). One thing that was of concern was in January 2020, when Indonesia's trade balance had a deficit of up to 860 million US dollars. Indonesia's export balance at that time was 13.4 billion US dollars while its import balance reached 14.2 billion US dollars in January 2020 (Binus University, 2020).

The impact of the Covid-19 pandemic also affected the Indonesian economy. Indonesia experienced an economic recession due to a significant slowdown in economic activity, such as decreased production and consumption activities, decreased demand for commodity goods and services, decreased investment, and mobility that stopped for quite a long time. The slowdown in growth became even worse in the second quarter of 2020 when the growth rate reached minus 5.32 percent (Wuryandani, 2020). This had the impact of reducing taxes which are government income, coupled with high state budget expenditures which were being mobilized to help those affected by the pandemic.

2.1.2. Relations Between Indonesia and Australia Before the IA-CEPA

The relationship between Indonesia and Australia before the ratification of IA-CEPA could be said to be quite dynamic. This is because both Indonesia and

Australia have very different cultures, political orientations, and development. However, one of the significant points in relations between Indonesia and Australia can be seen from the signing of the Lombok Treaty in 2006. This cooperation is a form of commitment between the two countries in security cooperation (Ariani and Elistania, 2019). The Lombok Treaty strengthened relations between the two countries to mutually protect both countries' territorial areas and carry out joint patrols. In 2010, this relationship escalated to a strategic partnership (Roberts and Habir, 2015).

However, bilateral relations between Indonesia and Australia heated up in 2013. This was caused by the issue of wiretapping of the Indonesian President at that time, Susilo Bambang Yudhoyono, by the Australian side. This wiretapping got a negative response from the Indonesian government, resulting in the freezing of security cooperation between Indonesia and Australia as well as stopping the exchange of defense information and cooperation in preventing human trafficking and cutting aid funds. The Indonesian government asked for clarity regarding Australia's interests in this wiretapping. Relations between the two countries became increasingly heated after Australia issued a policy to return refugees through the Australian Navy, which violated its commitment to prevent human trafficking. In addition, the execution of an Australian citizen who was a drug smuggler in Indonesia triggered a negative response from the Australian government (Ariani and Elistania, 2019).

Meanwhile, relations between the two countries in the economic and trade fields were worthy of attention. Both Indonesia and Australia consider that the economic and trade sectors are important sectors in the relations between the two

countries. In the 2012-2016 period, Australia became the twelfth largest export destination country, with a value of 4.9 billion in 2012. However, the value of Indonesia's exports to Australia has tended to be unstable. In 2013 it decreased to 4.3 billion US dollars, then grew again in 2014 to 4.9 billion US dollars, before decreasing again in 2015 and 2016 to 3.7 billion US dollars and 3.2 billion US dollars, respectively (Susanto, 2019). This trend declined again in 2018 when the value of Indonesia's exports to Australia reached only 2.8 billion US dollars or around 1.55 percent of the total value of Indonesia's exports that year. The main commodities exported by Indonesia include crude oil, finished petroleum, and wooden crafts, which are also supported by tourism services (Patunru, Surlanta, and Audrine, 2021).

The investment sector is one of the pillars of the Indonesian economy. The relationship between Indonesia and Australia is no exception. Although Australia is not one of the countries with the largest investment in Indonesia, Indonesia considers that investment from Australia has an important role for the country's economic growth and development. On the other hand, Australia also sees that Indonesia has the potential to become one of the largest economies in the world, so Australia uses this as an opportunity to invest in Indonesia (Department of Foreign Affairs and Trade, 2021).

The value of Australian investment to Indonesia itself tends to fluctuate. In 2012, the value of Australian investment to Indonesia reached USD 743.6 million. However, in 2013, the investment value dropped dramatically to USD 226.4 million, which again increased to USD 647.2 million the following year. This figure again dropped dramatically to USD 167.9 million in 2015 and only grew to USD

174 million in 2016. Then the value of Australian investment in Indonesia increased dramatically to reach US\$597.44 million in 2018 before finally declining again in 2019 by US\$348 million. It can be seen that before the implementation of the IA-CEPA, the value of Australian investment in Indonesia tended to fluctuate and even decreased drastically in some years (Jayani, 2020).

Meanwhile, Australia was the eighth highest importing country for Indonesia from 2012 to 2016. In 2012, the value of imported products from Australia reached 5.2 billion US dollars, which fell to 5 billion US dollars in 2013, before rising again to 5.6 billion US dollars. Then, in 2015, the value of imports of Australian products to Indonesia fell to 4.8 billion US dollars, before rising in 2016 to 5.2 billion US dollars (Susanto, 2019). and then again in 2018 to 5.8 billion dollars. Commodities imported from Australia include crude oil, coal, and wheat. These imports are also supported by imports of services, such as travel and tourism (Patunru, Surianta, and Audrine, 2021). Looking at the big picture, it can be seen that Indonesia's trade balance with Australia tends to be in deficit for Indonesia. This is coupled with the unstable value of Indonesian exports to Australia which tends to fluctuate. Therefore, the existence of IA-CEPA is considered to be a solution to stabilize Indonesia's trade balance.

It can be seen that Indonesia experienced a trend of deficit economic relations with Australia. The deficit experienced by Indonesia can be seen from the trade sector and the investment sector, where the value of Indonesia's commodity exports to Australia is much lower than the value of imports from Australia to Indonesia. This is exacerbated by how the value of Australian investment into Indonesia tends to decline and fluctuate. Therefore, there needs to be a

comprehensive form of cooperation between Indonesia and Australia that can accommodate the negative values that exist in the trade between the two countries.

2.2. Interests and Dynamics of Indonesia's Attitude in the Ratification of the IA-CEPA

2.2.1 Indonesia's Interests in the IA-CEPA

Indonesia has various interests that can be fulfilled by the IA-CEPA agreement. The first interest that the Indonesian government wants to fulfill is its interests related to the economy. To increase its economic growth, Indonesia needs to expand its market access and competitiveness for products originating from Indonesia. This is an important goal to achieve because Indonesia's trade balance with Australia is always in deficit in comparison to Australia's exports to Indonesia. As a result, Australia tends to experience a consistent surplus in trade relations with Indonesia.

The deficit in Indonesia's trade balance with Australia is a challenge for Indonesia in increasing its economy and trade value. One of the steps that Indonesia could take to reduce the trade deficit with Australia, which is one of Indonesia's largest trading partners, was ratify the IA-CEPA agreement (Murasidin, 2021). This step was taken because there are several potential benefits that Indonesia can obtain from this agreement, one of which is broad market access for various commodities from Indonesia. Through the IA-CEPA, Australia is committed to eliminating tariff costs for goods from Indonesia to 0 percent. This provides potential for Indonesia to increase its product exports to Australia which include textiles, which generated more than 300 million US dollars in 2018, carpets, ethylene glycol, ethylene

polymers, and even wooden furniture and oil and gas pipelines (Ministry of Free Trade Trade Agreement Center, 2021).

In addition, another economic interest for Indonesia incorporated in the IA-CEPA is the opening of new market opportunities for Indonesia for herbicide and pesticide commodities, where both products can enter Australia at a tariff of 0 percent. (Murtasidin, 2021). Indonesia also has an interest in entering the Australian automotive industry market as Australia does not have a local automotive industry. Therefore, Indonesia is making efforts to have Australia allow automotive products produced or assembled in Indonesia, including the preferred hybrid or electric automotive products, to enter the Australian market with a preferential tariff of 0 percent (Ministry of Free Trade Agreement Center, 2021).

The next economic interest that Indonesia wants to fulfill that was also a driving force behind the ratification of the IA-CEPA is increasing investment in Indonesia. Foreign investment plays an important role in the Indonesian economy, and Australia is listed as the fifth largest investment source country. However, Indonesia is in 20th place on the list of Australia's investment destination countries. Australia's low investment in Indonesia is caused by various factors, ranging from politics to ease of doing business, which Indonesia has not yet fully achieved (Murasidin, 2021). Indonesia sees potential investment opportunities from Australia for several service sectors. There are several sectors that could potentially attract investment from Australia, including education, tourism, mining, construction, energy, hospitals, wastewater treatment, transportation, telecommunications, and professional services (Ministry of Free Trade Agreement Center 2021).

The employment sector and improving the quality of human resources was also one of Indonesia's interests when ratifying the IA-CEPA. Indonesia is targeting investment in the higher education and vocational sectors, which is also supported by labor exchange as a form of knowledge transfer. Through this step, the Indonesian government is targeting the creation of a workforce of highly skilled workers whose competitiveness will increase. Furthermore, Indonesia also has an interest in improving the standards and competence of its workforce so that it has international standard quality. This will certainly help Indonesian workers meet the need for high-quality global workers (Ministry of Free Trade Agreement Center, 2021).

2.2.2. Dynamics of Indonesia's Attitude in the IA-CEPA Formulation Process

Even though Indonesia has various interests that it wants to fulfill through the IA-CEPA, in the formulation process prior to the ratification of the IA-CEPA there were dynamics triggered by the attitudes of Indonesia and Australia that occurred throughout the negotiation process.

In 2013, the Indonesian government filed accusations against the Australian government which was deemed to have been wiretapping several important officials in Indonesia since 2009. This wiretapping included wiretapping of the then President of the Republic of Indonesia, Susilo Bambang Yudhoyono, First Lady Ani Yudhoyono, Vice President Boediono, and Minister of Economy Hatta Rajasa (Rionaldo, Damayanti, and Haqqi, 2021). The act of wiretapping resulted in a negative reaction from the Indonesian government. As a result, there was a freeze in security cooperation between Indonesia and Australia. This also had an impact

on the IA-CEPA negotiation process, where the negotiation process was also frozen so that there were no further discussions at that time (Heap and Kingsley, 2020).

Then in 2016, the Indonesian government took the initiative to reactivate the IA-CEPA negotiation process under the Joko Widodo government. However, negotiations stalled again due to the Indonesian government's focus tending towards domestic economic policy and the condition of the Australian government which experienced a change in the prime minister. Eventually, the IA-CEPA negotiations began to find a bright spot with the signing of the Comprehensive Strategic Partnership or CSP which became a commitment for the two countries to maintain their bilateral relations (Heap and Kingsley, 2020).

However, obstacles were again experienced in the process of formulating and negotiating the IA-CEPA between Indonesia and Australia. In 2018, the Australian government issued a statement to move its embassy in Israel, from initially being in Tel Aviv to then being moved to Jerusalem. This statement received criticism from the Indonesian government, which is a supporter of Palestine. The Indonesian government felt that Australia did not notify them in advance about the decision, seemingly underestimating bilateral relations between the two countries (Heap and Kingsley, 2020). Indonesia, which has condemned acts of violence against Palestinians and the United States' decision to move its embassy to Jerusalem, strongly rejected Australia's decision, which was demonstrated by the attitude of the Indonesian Minister of Foreign Affairs, Retno Marsudi, who expressed her anger at the policy to the Minister of Australian Overseas, Marise Payne via text message. Retno Marsudi even criticized Australia's move to consider

moving its embassy to Jerusalem saying it could have a major impact on bilateral relations between Indonesia and Australia (Wroe, 2018).

Indonesia's stance in criticizing Australia's decision to move its embassy to Jerusalem is relevant because Indonesia has a foreign policy attitude in which the aim is to eliminate colonialism and fight for independence and freedom for countries throughout the world. Several politicians in Indonesia also mentioned that the consideration of moving the Australian embassy to Jerusalem could give rise to negative sentiments from the Indonesian people towards Australia. This could pose a risk to Australia's national security because the sentiment could cause Australia to be "punished" for not recognizing Palestine (Laksmana, 2018).

This incident caused the IA-CEPA negotiation process to stop again (Heap and Kingsley, 2020). Obviously, this condition was not beneficial for the national interests of Indonesia and Australia. Moreover, the situation in Indonesia, which was an election period at the time, made issues related to religion and Palestine important considerations in every step taken by the Indonesian government under Joko Widodo. The cessation of the IA-CEPA negotiations were expected to delay the benefits for Indonesia of exporting without tariffs and reducing trade barriers. Additionally, Australia was also at risk of not being able to experience direct benefits from IA-CEPA, especially in exports of steel and agricultural products. Therefore, it can be seen that the issue of moving the Australian embassy to Jerusalem was an influence on the progress of the IA-CEPA negotiations (Fatana, 2018). The Australian Minister of Trade, Simon Birmingham also issued a statement that Australia's decision to move its embassy to Jerusalem had disrupted the negotiation and signing process of the IA-CEPA agreement, and the Australian

government hoped that the decision to move the embassy would not be linked to the IA-CEPA negotiation process (CNN Indonesia, 2018).

Then in 2019, after the occurrence of various obstacles, both Indonesia and Australia agreed to sign the IA-CEPA early in the year. This was followed by Joko Widodo's visit to Australia to sign the Plan of Action for the Comprehensive Strategic Partnership in early 2020 before finally ratifying the IA-CEPA (Heap and Kingsley, 2020).

2.3. Objectives of the IA-CEPA

IA-CEPA is a comprehensive economic partnership between Indonesia and Australia. This partnership cooperation is carried out with the basic principles of a mutually beneficial partnership to strengthen economic relations between Indonesia and Australia in the long term. IA-CEPA itself is a framework for Australia and Indonesia to unlock greater economic potential through bilateral economic partnership. Through IA-CEPA, both countries can expand market access and increase competitiveness for various commodities (Department of Foreign Affairs and Trade, 2020).

As a bilateral trade agreement, there are several things that Indonesia and Australia want to achieve through the IA-CEPA. The main objective of the IA-CEPA cooperation agreement is to fulfill the economic potential of bilateral relations between Indonesia and Australia. This potential is to be fulfilled by efforts to expand the space for trade, investment, and cooperation in the economic sector between Indonesia and Australia. In addition, the IA-CEPA also aims to increase economic integration between the two countries, as well as build a foundation for other cooperation beyond the economic sector, in the areas of security,

environment, education, and other related issues (Ministry of Free Trade Agreement Center, 2021).

The objectives of IA-CEPA are realized through the first pillar in the 2018 Comprehensive Strategic Partnership which states that the IA-CEPA is recognized by Indonesia and Australia as an important step to open new market opportunities and facilitate better trade to create inclusive regional economic integration in the future (Department of Foreign Affairs and Trade, 2020). The IA-CEPA also aims to open up opportunities to create a good ecosystem and support business development and sustainable investment. Not only that, it is hoped that this good business development environment can also increase the competitiveness of products from both countries (Ministry of Free Trade Agreement Center, 2021).

Another goal that Indonesia and Australia want to achieve through the IA-CEPA is to reduce international trade barriers. International trade barriers are an issue that can disrupt the trade process. Therefore, the existence of the IA-CEPA should eliminate these obstacles so that products from the two countries can reach a wider market and balance the trade balance of the two countries (Andriani and Andre, 2017).

Another goal of the IA-CEPA is to achieve food security for Indonesia and Australia, where, through economic cooperation, both Indonesia and Australia can jointly encourage the productivity of agricultural products. This allows both countries to contribute more to the global value chain. The IA-CEPA cooperation is the basis for Australia to provide wheat raw materials to develop the processed food industry in Indonesia (Ministry of Free Trade Agreement Center, 2021). This is important as Australia is one of the countries with the highest food security, while

Indonesia has agricultural land with high potential for utilization (Andriani and Andre, 2017).

Another objective of the IA-CEPA is to increase investment between Australia and Indonesia. The IA-CEPA can provide a framework for the Indonesian and Australian governments to develop investment schemes that can facilitate the flow of investment from Australia to Indonesia. However, this increase in investment for Indonesia from Australia may provide a dilemma for the Indonesian government, especially since Australia itself is a country with a strong education industry. There are more than 17,000 Indonesian students studying in Australia (Detik, 2016). This is compounded by how the IA-CEPA emphasizes that Australia is the only country in the partnership that can invest in education in Indonesia. Through this, one of Indonesia's hesitations in opening up investment through IA-CEPA is how the higher education industry sector was previously included in the Negative Investment List. This is due to the possibility of Australian universities having lower quality standards when expanding into Indonesia and there is no guarantee how the investment will benefit Indonesian universities (Gumelar, 2018).

CHAPTER III

THE DRIVING FACTORS BEHIND INDONESIA RATIFYING THE IA-CEPA FROM THE PERSPECTIVE OF DECISION-MAKING THEORY

3.1. Goals and Objectives of the IA-CEPA

The existence of the IA-CEPA is a basis for Indonesia and Australia to implement a free trade agreement, strengthen economic and investment cooperation between the two countries, and expand opportunities in the field of trade. Additionally, the existence of the IA-CEPA is also a big step in bilateral relations between Indonesia and Australia, where the two countries will have a joint commitment to maintain relations in the field of comprehensive economic cooperation (Andriani and Andre ,2017).

The main objective of the existence of the IA-CEPA is to increase trade cooperation and economic relations between Australia and Indonesia and to have these relations be in a more effective, efficient, and transparent manner. This is to achieve barrier-free trade for commodities originating from both countries, thereby increasing economic opportunities for both countries (Rissy, 2021). In detail, there are several goals that the two countries want to achieve through the IA-CEPA cooperation agreement. The existence of the agreement is intended to facilitate investment opportunities for both countries, allowing investors from both Indonesia and Australia to expand their business and invest capital. Moreover, the IA-CEPA also guarantees protection and supportive investment facilities for investors in both countries, where the priority sectors are infrastructure, energy, tourism, food processing, higher education, and technology development (Ministry of Investment/BKPM, n.d.).

Several other goals to be achieved through IA-CEPA include encouraging the creation of a transparent, consistent, and predictable business climate, and seeking economic efficiency in trade and investment. The IA-CEPA also opens up free market opportunities while providing trade facilities by eliminating tariff and non-tariff barriers and eliminating acts of discrimination in trade in goods and services. This is done to encourage the business competition, economic efficiency, and economic prosperity of the two countries effectively and efficiently. Lastly, the IA-CEPA also encourages and facilitates trade procedures between the two countries which are carried out transparently to ensure efficiency for exporters and importers (Rissy, 2021).

There were several objectives for the urgency of holding IA-CEPA negotiations between Indonesia and Australia. The IA-CEPA negotiations were motivated by the desire to raise the level of bilateral relations between Indonesia and Australia. In addition, the IA-CEPA was initiated as an agreement that provides comprehensive partnership coverage, where this agreement not only covers partnerships in terms of trade but also economic, industrial, and human resource aspects, thus providing a positive impact on the economies of both countries. This was to be achieved by collaborating on the comparative advantages of the two countries, which were expected to later be able to encourage industrial productivity, exports, and competitiveness for the products of the two countries in the global market. This is important for both countries to increase their existence and integration into global value chains (Ministry of Industry of the Republic of Indonesia, 2019).

On the other hand, the IA-CEPA negotiations were also held to increase the productivity and quality of commodities, such as agriculture and minerals, as the interests of Australia and Indonesia both require products from these commodities (Wibisono, Kustiningsih, and Susanti, 2023). The IA-CEPA negotiations were also carried out as a commitment for Indonesia to expand market access for products made in Indonesia and encourage the entry of foreign investment as a priority. This was also considered positive for Australia, which sees that Indonesia is a neighboring country with high potential to become a new economic power in the Southeast Asia region, so Australia and Indonesia relations needs to be utilized to improve the economy and trade between the two countries (Wulandari and Suryadipura, 2021).

Looking at these objectives, it can be seen that the IA-CEPA is an agreement that is considered beneficial for the economic and trade sectors of the two countries. Each country also has its own interests and own views on what makes the IA-CEPA profitable for itself. For Australia, the existence of the IA-CEPA can strengthen bilateral relations between Canberra and Jakarta. The strained relations between Indonesia and Australia due to the issue of wiretapping and legal issues that occurred, made Australia feel the importance of strengthening relations between the two countries (Marisa 2020). Moreover, Indonesia is the country with the largest economy in Southeast Asia and was in 14th position as Australia's largest trading partner in 2018 with a value of 17.6 billion dollars. Australia saw the enormous potential that Indonesia has, and therefore Canberra sought the formation of the IA-CEPA. Australia assessed that Indonesia's potential could also have a positive

impact on trade and investment for Indonesia if utilized appropriately (Department of Foreign Affairs and Trade, 2019).

Another advantage that Australia can reap through the IA-CEPA agreement is the potential export profits it can gain. At least 99 percent of commodities in Australia that can be exported to Indonesia will enter duty-free or under enhanced preferential arrangements. Exporters from Australia will also benefit from the granting of import permits issued by Indonesia for several commodity products. This is also supported by trade facilitation and non-tariff measure mechanisms that can be implemented effectively and efficiently (Department of Foreign Affairs and Trade, n.d.). This is also supported by Indonesia's steps to not limit Australian business ownership in Indonesia. In the other direction, Australia also has a skills exchange program, where at least 200 workers from Indonesia can get access to 6 months of work training in Australia (Winanti, 2022).

Another potential advantage for Australia is the opportunity to invest in higher education in Indonesia. Through IA-CEPA, the Australian education industry sector will get leniency in investing in Indonesia with several provisions that need to be complied with by higher education institutions from Australia. Therefore, IA-CEPA has the potential to be the first step for higher education in Australia to open campuses in Indonesia (Patunru, et al., 2021).

There are also several potential benefits that Indonesia wants to obtain through the IA-CEPA with Australia. The main benefit that Indonesia will experience is increased access to exports of goods and services, which will allow Indonesia to no longer experience obstacles due to import duties and get a 0 percent tariff for commodities entering Australia from Indonesia. A total of 6,474 tariff

posts will be 0 percent, especially for products such as textiles, ethylene glycol, ethylene polymer sheets, carpets, oil and gas distribution pipes, and hybrid and electric vehicle products (Winanti, 2022). This is important as Indonesia's trade balance with Australia has long tended to be negative, with a decline in Indonesia's export performance to Australia from 2015 to 2016, placing Australia as the 12th export destination country for Indonesia (Ministry of Trade, 2016).

Another potential benefit that Indonesia can experience through the IA-CEPA is the potential for foreign investment to enter Indonesia. When looking at the value of Australian investment to Indonesia before IA-CEPA, there are fluctuations in the value of investment, where the value of Australian investment to Indonesia can grow and fall drastically within a certain period of time. The IA-CEPA is an opportunity for Indonesia to encourage investment from Australia to enter Indonesia. Not only that, but investment opportunities from the IA-CEPA will also be felt in the long term, when the agreement becomes a comprehensive economic cooperation framework that ensures a good investment climate (Uly and Djumena, 2020). The IA-CEPA also includes an Economic Cooperation Program amounting to 40 million US dollars, which is aimed at increasing the bilateral economic potential between Indonesia and Australia so that two-way trade can be balanced. Through the Economic Cooperation Program, Indonesia can grow its economy inclusively and increase its potential in the fields of food, agriculture, manufacturing, and services (Department of Foreign Affairs and Trade, n.d.).

Another factor making the IA-CEPA beneficial for Indonesia are the points in the agreement which encourage increased development of Indonesia's human resources by partnering with Australia. Through the IA-CEPA, both Indonesia and Australia

have agreed to carry out a skills exchange so that workers from both countries could be sent to Indonesia and Australia to receive job training and internships (Department of Foreign Affairs and Trade, n.d.). Australia has also opened a quota for 200 workers each year to gain access to job training opportunities in Australia for 6 months. This is also supported by the gradual increase in the number of Australian work visas and holiday visas for Indonesians (Winanti, 2022). This will help Indonesia to improve its human resource capabilities so that it can compete in the global market. On the other hand, this opportunity is also an opportunity for Indonesia to increase employment opportunities and the country's productivity which contributes directly to the Indonesian economy.

It can be seen that the IA-CEPA provides a great opportunity for Indonesia to increase its economic potential. It is felt that the IA-CEPA can optimize the trade balance between Indonesia and Australia, which can be said to be previously one-sided for Indonesia due to the decline in the value of exports for commodities traded to Australia. The Indonesian economy can benefit from the existence of the IA-CEPA through the various points of cooperation that can meet the economic and human development needs.

3.2. Alternatives to the IA-CEPA

During the negotiation process of the IA-CEPA, Indonesia had two alternatives related to the agreement. The first alternative was that Indonesia did not continue or ratify the IA-CEPA agreement. Several things encouraged the emergence of these alternatives. Firstly, Australia was found to be carrying out wiretapping actions against the Indonesian president and other important officials in 2013. This action of course invited a negative response from Indonesia, where

the Indonesian government opposed Australia's actions which were considered to violate its sovereignty and national security. This caused all cooperation and negotiations between Indonesia and Australia to be frozen. This suspension also included the freezing of the IA-CEPA negotiation process between Indonesia and Australia. Further freezing was experienced due to the execution of Australian citizens in Indonesia in connection with drug cases (Ariani and Elistania, 2019).

One of the reasons that Indonesia may delay ratifying the IA-CEPA is related to Australia's education investment in Indonesia. The IA-CEPA itself encourages Australia to invest in education in Indonesia and open universities in Indonesia. On the other hand, universities themselves are basically included in the negative investment list, for which there are various crucial considerations, such as the quality of Australian universities in Indonesia, and how the presence of Australian universities in Indonesia can benefit the national education sector.

The alternative of not continuing the IA-CEPA negotiations also emerged when Australia recognized Jerusalem as the capital of Israel and planned to move its embassy from Tel Aviv to Jerusalem in 2018. This decision certainly invited a negative reaction from the Indonesian government which supports Palestinian independence and recognition. This was demonstrated by the attitude of the Indonesian Minister of Foreign Affairs, Retno Marsudi, who expressed her disappointment with this policy to the Australian Minister of Foreign Affairs, Marise Payne. Retno Marsudi even criticized Australia's consideration of moving its embassy to Jerusalem and said that it could have a major impact on bilateral relations between Indonesia and Australia (Wroe 2018). Because of this policy, Indonesia decided not to sign the IA-CEPA agreement with Australia. This decision

was validated by a statement from the Indonesian Minister of Trade at the time, Enggartiasto Lukita, who emphasized that Indonesia would not agree to the IA-CEPA agreement if Australia continued to move its embassy in Israel to Jerusalem (CNN Indonesia, 2018). This action was Indonesia's form of pressuring Australia not to move its embassy to Jerusalem.

Another reason that could have stopped Indonesia from ratifying the IA-CEPA agreement was the implication that the IA-CEPA would benefit Australia in the export and import sectors. The IA-CEPA regulates 99 percent of commodities from Indonesia and Australia that can be exported to each country without any barriers or tariffs. Exporters are also facilitated in exporting their goods to Indonesia and Australia (Department of Foreign Affairs and Trade, n.d.).

This shows that not only is Indonesia free from barriers to exports, but also Australia is entitled to free export barriers. The implication of this is that 99 percent of commodities from Australia can be imported freely into Indonesia without any obstacles. This condition is certainly less favorable for Indonesia, which from the start wanted to balance trade conditions between Indonesia and Australia, where Australia was benefiting more from commodity exports to Indonesia. Seeing this, it was feared that the IA-CEPA would widen the gap in export profits between Australia and Indonesia rather than balance it. The existence of the IA-CEPA could also threaten the local Indonesian industry, as Australia exports agricultural products, such as meat, dairy products, sugar, and vegetables to Indonesia. This is coupled with Australia also exporting natural resources, such as petroleum, which Indonesia also produces (Department of Foreign Affairs and Trade, n.d.).

The other alternative that Indonesia considered was to ratify the IA-CEPA agreement. This alternative can be said to be one of the rational alternatives that Indonesia had because the IA-CEPA contains various potentials needed by the Indonesian government to improve profitability for Indonesia's long-term economic, trade, and development interests. As is known, the value of Indonesia's exports continuously decreased from 2011 to 2015, with a massive decline of up to 26.16 percent. This decline was caused by slowing demand for commodities from Indonesia in its main trading partner countries, followed by Indonesian products finding it difficult to compete in global trade (Ministry of Trade, 2016).

Indonesia's export performance to Australia was also considered less than optimal. At the time, Australia was the twelfth export destination country, and there was instability in the value of Indonesian exports to Australia which tended to fluctuate, even decreasing by 1 billion US dollars from 2012 to 2016. This condition was inversely proportional to Australia, which was the eighth-largest importing country for Indonesia (Patunru, Surianta, and Audrine, 2021). Of course, even though the conditions of trade relations between Indonesia and Australia are two-way, things were not looking very profitable for Indonesia.

Therefore, the existence of the IA-CEPA was one of the hopes for Indonesia to improve its export performance, not only with Australia but also in the global trade market. With the IA-CEPA, Indonesia can maximize its exports to Australia because commodities entering Australia can be exported without having to go through barriers or tariffs that hamper the potential of native Indonesian commodities. Through the IA-CEPA, Australia eliminates all tariff posts on commodity products from Indonesia. Undeniably, several export commodities have

the potential to increase through the IA-CEPA. The Indonesian automotive industry sector can also benefit from the preference of Australia for exporting hybrid and electric cars. This would also be an exemption from tariffs on native Indonesian herbicides and pesticides, which would enable producers of these two commodities to compete globally (Ministry of Free Trade Agreement Center, 2021).

The IA-CEPA also provides an opportunity for Indonesia to be able to compete in the global market by entering into a free trade agreement with Australia. This is the beginning of a commitment for Indonesia to increase trade, which can in turn improve the Indonesian economy. The IA-CEPA also allows Indonesia to compete globally in terms of human resources, allowing Indonesia the opportunity to improve the quality of its human resources with job training in Australia. This condition is obviously considered beneficial for Indonesia and initiated negotiations with Australia regarding the IA-CEPA. In addition, the Indonesian government can increase the potential for investment inflows from Australia into a more stable and consistently growing Indonesia. Given that Australian investment into Indonesia itself fluctuates, the IA-CEPA can be a framework that ensures better investment flows from Australia.

The IA-CEPA is considered more profitable for Indonesia's long-term economic and development interests. In addition to aiming to optimize the potential for trade of Indonesian products to Australia, this collaboration also focuses on human development through increasing human resource capabilities. This is evident in the point of the IA-CEPA collaboration which is committed to carrying out skills exchange through job training for 6 months. In this agreement, workers from Indonesia can get access to job training in Australia for 6 months. Indonesian

workers can also benefit from an increase in the work visa quota issued by Australia each year.

In addition to the importance for human development, the IA-CEPA is considered more profitable for Indonesia's interests in terms of commodity exports. In the IA-CEPA, the focus is more on opening up trade potential between Indonesia and Australia, where the majority of commodities from Indonesia entering Australia will enter without tariff or non-tariff barriers. Products from Indonesia will also not experience trade discrimination due to trade facilitation and transparency, which will make the export and import process between the two countries more efficient. This is of course important for Indonesia, which has an interest in balancing trade with Australia, as it previously experienced a decline in the value of exports year on year. Therefore, the IA-CEPA is an economic agreement that the Indonesian government prioritized for ratification and implementation.

3.3. Challenges and Consequences of the IA-CEPA

Every policy alternative that Indonesia considers has consequences, both positive and negative, for Indonesia's interests. First, there are several consequences of Indonesia choosing to ratify the IA-CEPA agreement with Australia. There are several positive consequences or potential benefits from the ratification. First, Indonesia can balance its trade balance with Australia, where Indonesia's trade activities with Australia thus far have been considered unprofitable for Jakarta because the value of imports is greater than the value of Indonesia's exports to Australia. Through the IA-CEPA, Indonesia can experience benefits in trade with Australia. Indonesian products exported to Australia will not be subject to tariffs or non-tariff barriers which are considered to have been hampering Indonesia's

development in its trade with Australia. The agreement has the potential to increase exports of products to Australia, such as carpet textiles, ethylene glycol, ethylene polymers, wooden furniture, and oil and gas pipelines (Ministry of Free Trade Agreement Center, 2021).

The IA-CEPA can be a gateway for Indonesia to increase incoming foreign investment. This is because the IA-CEPA provides a mechanism that can make it easier for Australian investors and business owners to invest capital and own a business in Indonesia. This condition can certainly have a positive impact on the Indonesian economy because the guarantee of easy investment in Indonesia can attract the interest of foreign investors, especially from Australia (Ministry of Free Trade Agreement Center, 2021). With the influx of foreign investment from Australia, job opportunities for Indonesian workers also become wider. Not only that, workers in Indonesia also have the opportunity to improve their skill quality through the IA-CEPA. Through the IA-CEPA, increasing the human resources of Indonesian workers can be achieved through investment in the higher education and vocational sectors, which is also supported by labor exchange as a form of knowledge transfer (Ministry of Free Trade Agreement Center, 2021).

Even though the IA-CEPA is considered to have promising and better economic, development, and investment potential, this comprehensive economic cooperation also has challenges and consequences in its implementation. The first challenge in implementing the IA-CEPA is in regards to how Indonesia can optimize the potential that the IA-CEPA has for its economy. This is, of course, related to connecting synergies between national networks and resources, to

increase Indonesia's participation in implementing the IA-CEPA as well as being able to utilize the agreement to improve the domestic economy (Rissy, 2021).

Another challenge that Indonesia could face from the IA-CEPA cooperation agreement is the potential risk of an increasingly unequal trade balance between Indonesia and Australia. With the IA-CEPA, not only can products or commodities from Indonesia be exported without barriers to Australia, but products and commodities from Australia to Indonesia can also be exported without tariff or non-tariff barriers. This could certainly disrupt the trade balance between Indonesia and Australia. If it is not balanced and utilized properly, there will be a decrease in the value of Indonesian exports to Australia or an increase in imports of Australian products to Indonesia (Bawotong, Darman, and Aprina, 2022). This condition may lead to the dominance of goods and services from Australia in Indonesia which will trigger negative excesses in the production of similar commodities, where the domestic market could be dominated by foreign commodities and cause the risk of a high trade deficit (Rissy, 2021).

Another challenge or consequence that could arise from the implementation of the IA-CEPA for Indonesia is the potential for horizontal and vertical conflict between foreign investors and Indonesian society. The IA-CEPA, which encourages the entry of Foreign Direct Investment (FDI) from Australia, makes it easier for foreign investors to invest their capital in Indonesia. The Indonesian government needs to pay attention to this because providing convenience and protection for business actors from Australia who utilize resources in Indonesia can be responded to negatively by the Indonesian people if they consider it not in favor of the welfare of local communities (Bawotong, Darman, and Aprina, 2022).

On the other hand, there would have been several consequences if Indonesia chose not to ratify the IA-CEPA. The positive consequences that Indonesia could have experienced by not ratifying the IA-CEPA are a positive impression on Indonesian society and political stability from not continuing further cooperation with Australia. The possibility of this perception emerged after Australia planned to move its embassy from Tel Aviv to Jerusalem, which received a lot of resistance from Indonesian society, including the Indonesian government itself (Wroe, 2018). If the Indonesian government decided to proceed with ratifying the IA-CEPA before Australia abandons its intention to move its embassy to Jerusalem, there is potential perception that the Indonesian government lacks solidarity with Palestine as it tends to overlook the fact that the occupation of Jerusalem could impact Palestinian sovereignty (Busch, 2019). Moreover, the ratification of the IA-CEPA coincided with the 2019 election period in Indonesia, where the issue of Palestinian independence and the recognition of Jerusalem as part of Israel could have increased political instability due to the emergence of opinions from Muslim voters in Indonesia (Catton, 2018).

In addition, the positive consequences related to this option allow Indonesia to maintain the flow of imports into Indonesia. By deciding not to ratify the IA-CEPA, Indonesia can protect itself by limiting the flow of goods entering Indonesia from Australia. Through this, the potential for Indonesia to experience a larger trade deficit can be minimized. Not only that, by not ratifying the IA-CEPA, the potential for capitalization of the education sector in Indonesia through investment in Australian universities in Indonesia can be minimized. The IA-CEPA emphasizes that Australia can invest in the higher education sector in Indonesia by opening

campuses in Indonesia. In fact, education itself is basically included in the Negative Investment List because education is part of the process of developing the education sector.

Meanwhile, the negative consequences of the decision not to ratify the IA-CEPA agreement would also have had an impact on the Indonesian economy, given the potential economic benefits that Indonesia would gain through the IA-CEPA, especially in its trade with Australia. It can be seen that if Indonesia did not ratify the IA-CEPA, Indonesia would still experience tariff and non-tariff barriers when exporting its commodities to Australia. This would cause trade relations between the two countries to become unbalanced because the value of Indonesia's exports would not be able to match the value of its imports, which would cause a trade deficit. Many Indonesian products do not have the opportunity to enter the global trade market, but the IA-CEPA would facilitate exports allowing local products to compete abroad. Additionally, the alternative of not ratifying IA-CEPA would also have the consequence of making Indonesia less attractive as an investment destination for Australian investors. Another consequence that must be accepted is the possibility that workers from Indonesia would not be able to improve their skill quality because they would not have access to exchange worker programs to Australia, which is supported through the IA-CEPA.

Thus, it can be seen that there are several negative consequences of the Indonesian government ratifying the IA-CEPA, which generally arise from Indonesia's trade conditions with Australia and doubts surrounding Indonesia's ability to optimize the potential profits that can be obtained through the IA-CEPA. However, there are also positive consequences that Indonesia can obtain from the

ratification of the IA-CEPA, which can be said to have more potential and can be realized. Moreover, the positive impacts of the IA-CEPA will affect Indonesia's economy and trade in general with Australia.

The positive potential that Indonesia can exploit is the potential to increase Indonesian exports to Australia, increase investment entering Indonesia, and develop the quality of domestic human resources. This is considered capable of replacing the negative consequences, which include doubts about optimizing existing potential and potential conflicts in society. This is important because improving the economy can help stabilize the social conditions of society.

3.4. The Decision to Select and Ratify the IA-CEPA

Looking at the consequences of Indonesia's two choices - to ratify or not to ratify, the negative consequences are one of the main concerns because they can impact Indonesia both in the short and long term. The negative consequences for Indonesia from ratifying the IA-CEPA, such as the potential to worsen Indonesia's trade imbalance with Australia and horizontal conflicts between society and investors, could indeed have an impact on Indonesia. However, the Indonesian government also saw that ratifying the IA-CEPA would have a positive impact that is greater than the negative consequences that Indonesia would feel. The positive impact of the IA-CEPA would be directly felt by Indonesia through the ease of exporting Indonesian commodities to Australia as well as through the steps taken to increase human resources through job training in Australia.

Considering the many economic and trade collaborations between Indonesia and Australia, some of which are regional economic cooperation, there are several reasons why the IA-CEPA is the right choice for Indonesia. For Indonesia, the

existence of the IA-CEPA can increase the potential for economic and development benefits by filling existing gaps in bilateral relations between Indonesia and Australia, especially in the economic and trade fields. Increasing the ease of access in cross-border trade between Indonesia and Australia will be quite promising, as good trade relations exist between the two countries (Department of Foreign Affairs and Trade, 2019). The existence of the IA-CEPA could encourage the trade situation between Indonesia and Australia. Previously, Indonesia experienced quite large trade barriers when entering the Australian market which triggered a decline in the value of exports from Indonesia to Australia (Andriani and Andre, 2017).

Indonesia also saw the IA-CEPA as an opportunity for its products and commodities to enter the global market. The number of potential commodities from Indonesia can be optimized with the ratification of the IA-CEPA. This is due to the elimination of trade barriers which means commodity products from Indonesia can enter Australia at a 0% tariff, especially for food and agricultural products which are prioritized by Indonesia. The IA-CEPA is also seen as beneficial for Indonesia to encourage industry and trade through investment from Australia. It is hoped that investment from Australia that will enter Indonesia will stimulate economic development and national infrastructure to improve the domestic economy (Andriani and Andre, 2017).

In addition, the IA-CEPA is also felt to be able to increase Indonesia's domestic productivity. This is because the IA-CEPA has a skills package that focuses on developing human resources and the workforce. Through this package, Indonesia will benefit from its workers being able to access job training in Australia for six months, which will later be useful for increasing domestic industrial

productivity. Indonesia can also expand employment opportunities by sending its workforce to Australia through the worker visa policy which is more relaxed through the IA-CEPA (Department of Foreign Affairs and Trade, n.d.).

However, by ratifying IA-CEPA, one of the losses experienced by the Indonesian government is the potential for negative sentiment from the public towards the Indonesian government. This is because the losses experienced by Indonesia itself were more political in nature because the Indonesian government had pressured the Australian government due to policy discourse in moving the Australian embassy from Tel Aviv to Jerusalem. If Indonesia decides to ratify the IA-CEPA, then Indonesia will be deemed unable to fulfill its interests in fighting for Palestinian sovereignty completely.

On the other hand, the alternative option for the Indonesian government not to ratify IA-CEPA was not chosen even though the Australian government decided to postpone moving its embassy to Jerusalem. This is because if Indonesia does not ratify the IA-CEPA cooperation agreement with Australia, the benefits obtained will be the potential for small-scale political gains, in which the Indonesian people's trust in the Indonesian government will increase because it is considered to have firm solidarity in fighting for Palestinian sovereignty, supported by stability politics during the 2019 election.

Given the points outlined above, Indonesia decided to ratify the IA-CEPA. The various potential benefits, such as the potential to increase Indonesian exports to Australia and balance this with Australian exports to Indonesia, drove the decision to ratify the agreement. Furthermore, improving the quality of human resources through job training was also considered beneficial for Indonesia because

it can help transfer knowledge and technology which is beneficial for the domestic industry and the quality of Indonesian human resources globally. These benefits are capable of covering potential losses, such as the entry of commodities from Australia which can be imported without tariffs. Meanwhile, for Australia itself, one of the losses that Australia could experience is potential losses from a political perspective, in which Australia is forced to postpone plans to move its embassy to Israel from Tel Aviv to Jerusalem.

CHAPTER IV

CONCLUSION

4.1. Conclusion

To understand why Indonesia decided to ratify the IA-CEPA as a new cooperation agreement with Australia, it can be seen that there were various reasons, interests, and considerations for Indonesia's decision to ratify the IA-CEPA cooperation agreement.

The general aim of the IA-CEPA is to strengthen relations between the two countries and become the basis of a free trade agreement for Indonesia and Australia to jointly meet the needs of both countries through trade. The Indonesian government saw the potential to increase Indonesian commodity exports to Australia which could benefit domestic interests. Indonesia itself has various interests that it wants to achieve, the first is increasing access to exports of goods and services by eliminating tariff barriers. The next interest is to encourage investment from Australia to enter and invest in Indonesia which can be felt in the long term. Plus the importance of increasing human resource capabilities through job training for Indonesian workers.

Looking at the situation that occurs inside and outside the economic context, there are two alternatives for Indonesia, namely to ratify or not to ratify IA-CEPA. Indonesia can ratify the IA-CEPA agreement because the IA-CEPA agreement itself can bring significant economic benefits due to opening up market access for commodities from Indonesia to Australia as well as opportunities to increase human resources. Consequently, Indonesia must be prepared to face the implementation of the IA-CEPA agreement and conflicts as well as people's trust in sentiment towards

Australia itself. Meanwhile, the second option is not to ratify, because Indonesia already has the RCEP framework as trade cooperation with Australia. This is coupled with the discourse of moving the Australian embassy to Israel to Jerusalem which threatens Palestinian sovereignty. From this option, the positive consequence is increased public trust in the Indonesian government, however, market access for Indonesian commodities to Australia is not as great as if Indonesia decided to ratify.

Therefore, Indonesia chose to ratify the IA-CEPA agreement with Australia. This is because the potential benefits from the IA-CEPA agreement are considered greater and more profitable even though Australia decided to postpone the move of its embassy to Jerusalem. The benefits of IA-CEPA can also be felt by Indonesia as a whole and in the long term.

If viewed from the perspective of decision-making theory, the Indonesian government's decision to ratify the IA-CEPA considered various aspects with both positive and negative consequences, as well as existing alternatives, making the decision to ratify the agreement a rational choice. The rationality of this decision was based on the potential and positive consequences that could be obtained by the Indonesian government which are greater than the potential losses that may be experienced from the IA-CEPA agreement. Moreover, the Indonesian government considered the goals and interests that could be achieved, the existing alternative options, the consequences of each alternative if implemented, as well as decision options that were considered beneficial for Indonesia.

4.2. Recommendations

After conducting research regarding Indonesia's decision to ratify the IA-CEPA, the author has recommendations that can be used by the Indonesian government to optimize the potential of the IA-CEPA cooperation as well as recommendations for further research for scientific progress.

This research is limited to the IA-CEPA ratification process and focuses on the reasons why Indonesia ratified the IA-CEPA agreement so this research does not discuss the influence and impact of the IA-CEPA agreement on trade and the economy of Indonesia and Australia. Therefore, as a recommendation for further research, the author recommends that further research focus on the impact or results of the IA-CEPA cooperation agreement for Indonesia. This is important to know the extent of IA-CEPA's effectiveness and whether Indonesia can fulfill its potential through this cooperation.

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