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Muhammad Maulana

Iberahim

December 2020

THAMMASAT UNIVERSITY

# **PAPER NO. 02 / 2020**

**Thammasat Institute of Area Studies, Thammasat University  
Working Paper Series 2020**

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**Muhammad Maulana Ibrahım**

**Thammasat Institute of Area Studies, Thammasat University**  
99 Moo 18 Khlongnueng Sub District, Khlong Luang District,  
Pathum Thani, 12121, Thailand

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This publication of Working Paper Series is part of Master of Arts in Asia-Pacific Studies Program, Thammasat Institute of Area Studies (TIARA), Thammasat University. The view expressed herein are those of the authors and do not necessarily reflect the view of the Institute.

For more information, please contact, Thammasat Institute of Area Studies (TIARA), Pathumthani, Thailand

Telephone: +66 2 564 3129

Fax: + 66 2 564 2849

Email: [tiara.thammasat@gmail.com](mailto:tiara.thammasat@gmail.com)

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Mr. Muhammad Maulana Ibrahims, Email: [iberahims@live.com](mailto:iberahims@live.com)  
or Thammasat Institute of Area Studies, Thammasat University

## **Abstract**

This paper 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 fact that research on Indonesia's agricultural liberalization in the WTO from the perspective of a developing country has been underdeveloped necessitates contemporary research in the current global trade regime. However, many Indonesian political economy literatures have paid disproportionate attention to recent economic orientation since the political motives to achieve self-sufficiency under the agenda of agrarian reforms have burgeoned. Besides, most studies have an overemphasis on state-centric analysis and failed to capture domestic political dynamics of which grass-root role in international trade and relations has integral structural ascendancy. Therefore, this study adopts the two-level game theory by Robert Putnam to analyze the nexus between international and domestic pressure. Combining economic nationalism into the two-level game as the analytical framework has been able to capture deeper analysis beyond neoliberal globalism and Marxist tradition of class struggle. The paper argues that domestic actors played significant roles in influencing the government's decision-making process as the authority had virtually encountered a two-board game. The interactions among domestic actors, who are represented by interest groups and subdivided into business associations and labor unions, have induced a protracted conflict of interest, both centrifugal and centripetal forces over the issues of agricultural liberalization, which are deemed as the great debate of laissez-faire a la Austrian school vis-à-vis mercantilist 'beggar thy neighbor' and Listian economic nationalism. However, the Indonesian government continues to find conceivable lawful alternatives to defend its national interest under the WTO global trade regime as a response to the late stage of capitalism.

**Keywords:** two-level game, business association, trade union, self-sufficiency, economic nationalism, WTO

## **1. Introduction**

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 capitalism that causes inequality and disruption in the global south's food supply chain, including Indonesia, has induced the rise of new nationalism and consolidated left- and right-wing movements to oppose the free market. Therefore, these nationalist movements pose a threat to the continuance of the global liberal trade order advocated by the World Trade Organization (WTO).

On the contrary, Cohee (2008) has the opposite view in which the global trade regime has threatened internal political acceptance due to its compliance mechanism. Thus, the global trade regime's unfair underlying structure allows developing countries to undertake autarkic goals in achieving food self-sufficiency (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 economic scholarship. Therefore, this article 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.

While Brazil had filed a complaint and undergone legal mechanism through the WTO dispute settlement body (DSB) due to the import restriction imposed against Brazilian chicken meats and products, Indonesia continued to defend the national interest by utilizing alternative legal mechanism to challenge Brazil's claims under global rules-based trade regime. As for the result, the panel favored the Brazilian government at the expense of Indonesia so that Indonesia has to open market access for Brazil and lift the trade-restrictive measures.

A few studies have explored the trade dispute between Indonesia and Brazil over chicken products due to the imposed trade-restrictive measures from different perspectives. For example, Rigod and Tovar (2019) have analyzed Indonesia's import restriction by employing a legal-economic perspective. Although they acknowledge the political-economic motives found behind the self-sufficiency objective, they are unable to illuminate the socio-historical background that constitutes Indonesia's economic nationalism. Similarly, Rumokoy (2020) dissertation about Indonesia's agricultural trade law is examined through an international law perspective in which the global trade regime under the WTO laws has been able to put pressure toward its member states to comply with the existing regulations. 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.

Nevertheless, the aforementioned studies are limited to the legal perspective and have failed to capture domestic political dynamics of which grass-roots roles have a significant role in determining the national economic policymaking. Therefore, it is noteworthy to unpack the nexus between business and government, including the dynamics of domestic actors, particularly in the poultry sector. Despite the reorganization of oligarchs in the post-Suharto political-economic milieu (Hadiz & Robison, 2013), the regime transition toward more democratic institution has enabled middle-class and interest group to have the latent capacity to influence the political decision (Chalmers & Hadiz, 2005; Faisal, 2013), whereas clientelism and cronyism existed under the protection of Suharto are not necessarily absent in post-Suharto politics. In addition to the growing influence of domestic political actors, the OECD (2012) reports that farmers have been actively lobbying the government to deliver favorable policies for domestic producers.

Inquiring domestic actors' role in determining national economic policymaking, this paper argues that Indonesia's protectionist measures against Brazilian chicken meat and products, which resulted in trade-restrictive effects - has been implemented through a series of legal mechanisms, including an import-licensing regime. These trade-restrictive measures were not merely instigated due to non-economic motives but also sparked by political motives. However,

the Indonesian government appeared to be facing difficulties as it had to encounter a two-board game - negotiation and pressure from the international and domestic level. On the one hand, Indonesia had to deal with government-business relations. On the other hand, Indonesia had to take into account its obligation under the WTO agreements.

## **2. Two-level Game and the WTO**

The interplay between international and domestic has been intertwined. While it remains yet to be clear which level most likely to have a more substantial influence over another, the former still has its significance in state-to-state interaction and negotiation. On the other hand, the growing body of non-state domestic actors in responding to international negotiation has put forward the latter's necessity into the equation. The theoretical premise of the two-level game, understood as a puzzle of linkage between international and domestic affairs (Putnam, 1988), would have been fruitless if one had analyzed the interconnection in a monocausal manner. However, the two-level game avoids a solitude analysis in which the identification of domestic cause will affect international changes or vice versa or what Putnam referred to as second image (domestic to international) or second image reverse (international to domestic).

In the global trade regime discourse, particularly on the issue of compliance act under international liberal and rules-based order, the two-level game has been meticulously useful in analyzing the reluctance, difficulties, challenges as to why countries would have (or could have) violated some agreements or encountered the complexities in the negotiation process. The employment of the two-level game framework in the WTO political economy is useful due to the number of actors involved, including the state, international institution, and domestic actors that comprise interest groups and stakeholders (Ostry, 2004). Therefore, international negotiation could not simply disregard the importance of domestic politics among parties, social classes, interest groups (economic and non-economic groups), legislators, public opinion, and elections.

### **3. Economic Nationalism and Politico-Business Relations in Indonesia**

Economic nationalism is nothing new. It can be traced back to Friedrich List, whose seminal work of *National System of Political Economy* (1841) has inspired many nationalist-minded policymakers who do not entirely refuse capitalism and exchange of trade but also advocate necessary domestic protection and the fertile industry as a strategy to catch-up with the global economy. Though List's theory remains useful in identifying economic nationalism, Helleiner and Pickel (2005) suggest that economic nationalism goes beyond protectionist measures. Furthermore, economic nationalism does not necessarily contradict liberal policies and free market, where the literatures tend to depict economic nationalism and neoliberalism as antithesis (Harmes, 2012).

Whereas the paradox of economic nationalism has muddled economic preferences, Helleiner (2002) suggests that instead of focusing on individual policy endorsement, economic nationalism should have been understood from its nationalist content. Analogously, De Bolle and Zettelmeyer (2019) concluded that economic nationalism intersects populism and political nationalism. They agree that economic nationalism should be assessed from policy preferences rather than the actual policies due to structural factors determining the latter. Thus, economic nationalism is outlined as the attempt to "further domestic economic interest (producers, consumers, and/or workers) at the expense of foreign interest..." (De Bolle & Zettelmeyer, 2019).

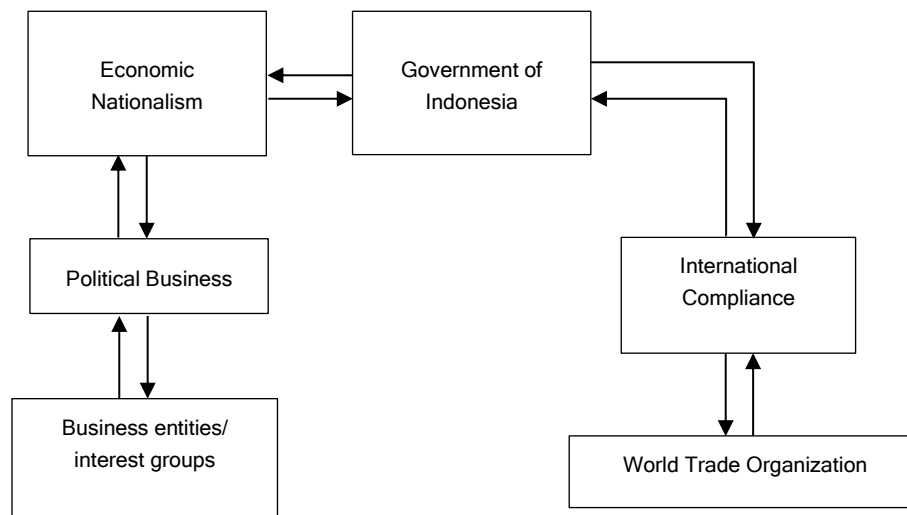
In addressing economic policy preference and outcomes, Indonesia is committed to nationalist motives, which can be outlined from the early economic revival stage after independence (Thee, 2011). The post-colonial embeddedness in Indonesia's economic philosophy further justifies economic nationalism in its top-down approach. The underlying principle of economic nationalism is underpinned in Article 33 of the constitution. Historical analysis shows that Indonesia's economic development relies on the state, reinstating a more prominent role in the government in economic policymaking (Chalmers & Hadiz, 2005). Evidence has shown that economic nationalism works 'hand-in-glove' with corruption, rent-seeking, and 'bread and butter,' whereby government and business relations in relations is *quid pro quo* - one source of another's income. (e.g., Chalmers & Hadiz, 2005; Eklöf, 2002; Hendrick-Wong, 2018; McLeod, 2000).



#### 4. Research Methodology

International political economy literatures tend to focus on the state's predominant role in the international trade system, in which states are treated as a unitary actor. Although this paradigm is still useful, if at all, in analyzing the two-level game, it remains to be insufficient to fully capture domestic political dynamics that involves different actors. While the grass-root role in the context of international trade and relations has integral structural ascendancy, the structural determinant reinstates the prevalence of the state's role in the two-board game. In this regard, the Indonesian government had faced two levels of negotiations. On the one hand, Indonesia has obligations and is committed to the WTO agreement. On the other hand, Indonesia has to encounter politico-business relations. Consequently, it posits a situation in which Indonesia found its hand-tied between two-level due to a degree of persistence against international commitment.

*Figure 1: Indonesia's Two-level Game, Dilemma between International Compliance and Economic Nationalism*



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

By combining economic nationalism to the analytical framework, it is expected that the result of the discussion will go beyond the debate of liberal and mercantilist policies. In this context, economic nationalism departs from the nationalist motives, which is akin to populist politics to achieve self-sufficiency. Furthermore, using qualitative research and deriving primary data from interviews with different stakeholders (government officials, businesses, business associations, and labor unions), this research aims at a structured analysis by triangulating the data from various sources.

## **5. Political Economy of Agriculture in Achieving Self-sufficiency**

According to the WTO Country Profile in 2017 regarding agricultural commerce, Indonesia's total exports and imports comprise 29% export and 15% import. Despite 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 persist in being an issue that results in increased price in remote places and the poor (Di Nunzio, 2013). Indonesia's self-sufficiency legal instruments are/were challenged by other nations and disputed through the WTO 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. However, inefficiencies in food distribution system will lead to food insecurity and hamper self-sufficiency.

Food security defined by the Food and Agricultural Organization (FAO), is categorized as food availability, access, utilization, and stability - Indonesia combines self-sufficiency and food security through the national food law in 2012, by which Indonesia prioritizes domestic production to supply food's demand. The fact that the food security concept proposed by the FAO does not take into account who the producers are, Indonesia's commitment to undertaking self-sufficiency is then political. Many economic-oriented technocrats, who often advocate free trade, perceive that self-sufficiency is a utopian dream, in which self-production and self-reliance could have resulted in price volatility due to many efficiencies embedded within. As the Japan International Cooperation Agency (JICA, 2013) put it, the rhetorical concept of self-sufficiency is an illusory, impractical, and inefficient goal. Moreover, Indonesia's self-sufficiency measures are vulnerable to inflation because self-reliance will result in supply

and price fluctuation. Notwithstanding the commitment to achieving food security in the long-term, Indonesia's objective is to prioritize domestic production by 90%.

Many believe that increasing self-sufficiency is the best way to achieve food security (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.

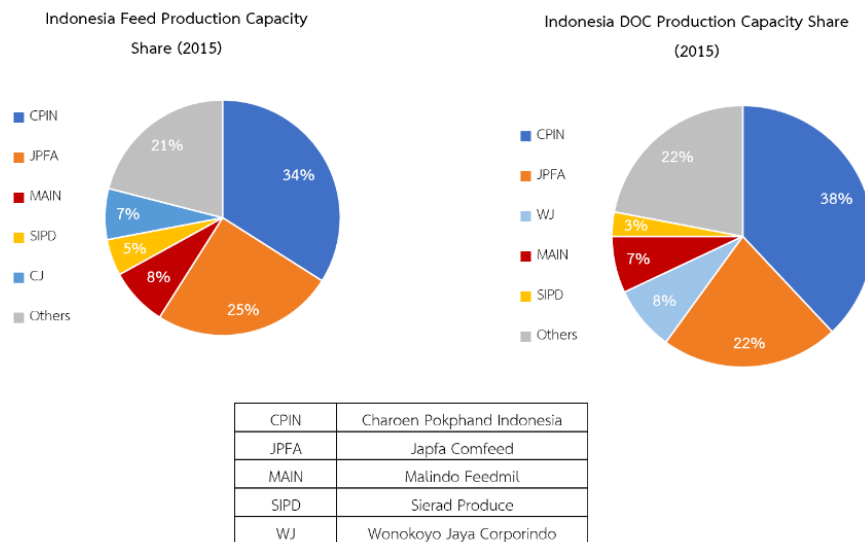
Other legal instruments that support the autarkic goal is through the enactment of Trade Law 7/2014, which stipulates neomercantilism and anti-consumer stance (Patunru & Rahardja, 2015). However, trade protectionism measures were not merely resulted from national law. Aside from the constitution and national laws, ministerial regulations also have legal capacity to achieve self-sufficiency. As Rumokoy (2020) suggested, 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.

## **6. The Dynamics of the Indonesian Poultry Industry: Market Structure and Actors**

Several companies statistically dominate the Indonesian poultry industry; meanwhile, the production is concentrated in several areas, particularly in Java. Charoen Pokhphand, a Thai conglomerate group, has one of the largest market shares, which grasps more than 66% of the national market for processed chicken (Alonzo, 2016) and 34% feed production capacity and day-old-chicken (DOC) production capacity. The second biggest market share is owned by Japfa, an Indonesian-owned poultry firm that comprised around 20-25% share of feed and DOC production capacity. The rest of the companies whose market shares constitute

significant numbers are also foreign-owned (excluding approximately 20% of local small and independent poultry farmers)<sup>1</sup>.

*Figure 2: Feed and DOC Production Shares in Indonesia (2015)*



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

Indonesia's poultry consumption has increased significantly as poultry meat becomes more affordable. It is noted that poultry consumption per capita was at 4.0 kg in 1994, has reached 8kg in 2014, and is forecasted to reach 12kg per capita in 2023. 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 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.

<sup>1</sup> Small and independent farmers (*peternak rakyat*) is a farming operated in broiler industry whose business scale is small, capital is tight, market access is restrained, and operation is not dependent on integrated firm (See Nugroho, 2020)

Structurally, domestic actors as interest groups posit political power in which the representation of these groups is subdivided into business interest associations and labor unions. Thus, unpacking the Indonesian poultry market structure is necessary to analyze ownership patterns as they pose power that is derived from both structural and instrumental (Paster, 2018). One way to achieve that political power can be sourced from the instrument by enclosed or open lobbying and donation. However, consumers are also structurally dependent on the firms, analogously making business liable to consumer preference and government regulation.

For example, the Association of the Indonesian Poultry Producers (GAPPI) and the Poultry Breeder Companies Association (GPPU) represent the breeding sector's interest. Furthermore, broiler farmer, whose ownership is dominated by small farmers and is represented by the politically active association, such as the Association of the National Chicken Farmer Organizations (GOPAN) and Indonesian Poultry Farmers Association (PINSAR) (USAID, 2013). Regarding the dynamics between actors, PINSAR suggests that big firms have enjoyed greater political patronage sourced from one legal instrument that essentially legalizes them to cultivate chicken products, which would undermine small and independent farmers - unless the government could maintain supply and demand equilibrium.<sup>2</sup>

In addition to political patronage given to the big firms by the state, in 2016, the Indonesian business competition watchdog (KPPU) filed a lawsuit against 12 poultry firms as they have exercised cartel-like monopoly in controlling the price, undermining a fair competition between integrated firms<sup>3</sup> and small and independent farmers. However, the verdict has been revoked after 11 firms appealed the charge levied to each company. The court argued that the 12 poultry firms had only followed the government's instruction. As a result, the MoA signed an agreement with KPPU, PINSAR, and GPPU to further involve small and independent farmers in the loop. It thus resonates an ironic situation in which a good intention of controlling the price could have adverse impacts on small and independent farmers.

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<sup>2</sup> Author's Interview, B1, August 2020

<sup>3</sup> Integrated poultry firm is understood as a firm that has undergone an integrating process in which major line of broiler businesses are merged to reduce costs and increase production capacity in each stage of production. Integrated poultry firms also control the vertical supply chain, whereby upstream and downstream production stages are controlled. (National Chicken Council, 2012)

## **7. Jokowi's Economic Nationalism Manifestation on Food Sovereignty**

Unlike Yudhoyono's regime, whose administration was surrounded by elites and technocrats (Mietzner, 2012), Joko 'Jokowi' Widodo is known for his populist politics portrayed as the New Hope for Indonesian politics by many media during his early campaign period. In addressing the predatory policies that disadvantaged domestic producers due to excessive imports and subsidies, Jokowi positioned himself as a nationalist figure with an alluring façade who promised to reduce dependency on elites and cronies (Aspinall, 2016; Mietzner, 2012).

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

*Jokowi in the presidential debate in 2014.*

The manifestation of economic nationalism in Jokowi's political campaign can be identified from his Nawacita Goal4 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." During Jokowi's first term, many series of import ban was introduced to protect domestic producers.

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.<sup>5</sup> Many analysts have agreed upon the issue in 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. Despite the idiosyncratic analysis covering top-down economic nationalism, conversely, economic nationalism also departs from the bottom-up.

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<sup>4</sup> Nawacita is adopted from Sanskrit. *Nawa*: nine and *cita*: goal/program.

<sup>5</sup> Author's Interview, A2, August 2020

Jokowi's autarkic agenda in Nawacita has deep roots in the Philosophische Grondslag of Indonesia, i.e., Pancasila and Sukarno's Trisakti Principle (Sulistyo, 2016). Interpretation of Jokowi's Nawacita in the context of economic nationalism cannot be separated into the imagination of an ideal nation based upon Sukarno's principles that cover political sovereignty, economic autarky, and cultural identity. Thus, it became the underpinning of Jokowi's manifestation on how an ideal national identity should be.

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. 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. Therefore, Jokowi's developmentalist put people first as an intermediary factor, which connects the interest of individualism and an imagined nation. 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.

## **8. Neoteric Political Economy of Food Self-sufficiency**

Achieving self-sufficiency [food security] by protecting 'essential' goods<sup>6</sup> (staple foods) is the central government's responsibility. Indonesia has enacted a series of legal instruments, including national food law, as a means to achieve such goals (Di Nunzio, 2013). Therefore, the MoA and the MoT have the authority to control the market, restrict export/import, and manage supply/demand.

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<sup>6</sup> Essential goods (*barang pokok penting*, bapokting) refers to the appendix in Trade Law 2014

*“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 agricultural [poultry] sector.”*

*(Interview C1, September 2020)*

Indeed, the MoA has no direct control over the market prices; instead, it could control supply and demand, which will eventually affect market prices indirectly. The MoA has repeatedly requested firms to reduce DoC production in response to market oversupply (Nugroho, 2020). Under the MoA’s 2015-19 strategic plan, it proposed self-sufficiency by providing a partnership concept and provided a guideline to harmonize all actors to be a positive game. The MoA asserted that this partnership concept is not a pro-free market.

The augmentation of self-sufficiency under national populist narratives as a means to achieve autarky might be politically appealing in the short run; the opportunity cost is, however, higher than achieving food security instead. Therefore, the MoT concedes that the most economically wise measure is to eventually lift restriction while also continues to defend Indonesia’s international 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 role of bureaucratic polity is then essential to defend 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 the coordinating ministry for economic affairs that would consider political-



economic factors. This renders the government's action in intervening in the market or what economists referred to as market failure correction.

## **9. Achieving Economic Nationalism from Bottom**

An Austrian school economist, who was also involved in the Indonesian poultry industry, argues that regardless of what ideological notion business players are, their nature is capitalism.<sup>7</sup> Business owners will eventually endorse and reckon on the most economically wise policy for them. Therefore, it reverberates that economic nationalism for poultry firms, particularly those of integrated firms, has played a little influence in striving national populist narratives echoed by the state.

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 firms 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 (bottom). The role of integrated firms, which is the most industrialized sector in agriculture, has achieved high-paced growth, modernized the technology, and applied know-how to the industry. It thus allows efficient production capacity, leading to a more affordable protein source - an instrumental factor that is envisaged to achieve economic nationalism through the capitalist system.

On the other hand, independent farmers' role in achieving economic nationalism has decreased, indicating the space to exert more influence is now even more limited. This due to the fact that numbers of independent farmers have fallen from 100,000 in 2008 to 6,000 today. And market share from 70% in 20078 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, 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.

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<sup>7</sup> Author's Interview, A1, August 2020

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 are a growing conflict of interest between the small and independent poultry farmers vis-à-vis integrated firms<sup>8</sup>, where the latter tends to monopolize the market by setting the production price lower than the cost of goods manufactured (COGM) governed by the MoT (Bangsa, 2020), while the former suffers from predatory pricing or 'cash burn' 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 union and business because its hierarchical structure that paves the way for a dependency of the former to the latter than vice versa. As the labor union that 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 labor unions are more appealed to nationalist narratives - even though economic nationalism would eventually benefit integrated firms.

## **10. 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 Article XXII of the General Agreement on Tariff and Trade 1994, Article 11 of the Sanitary and Phytosanitary Measures (SPS) Agreement, Article 6 of Import Licensing Procedures, Article 14 of Technical Barriers to Trade (TBT Agreement), Article 19 of the Agreement on Agriculture (AoA), Article 8 of the Agreement on Pre-shipment Inspection.

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<sup>8</sup> Author's Interview, B1, August 2020

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 panel appointed to settle the dispute partly sided with Indonesia in several defenses, particularly those of halal-related certification due to the consumer structure whom the majority are Muslim.

According to the WT/DS484/R (2017), 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 (2017), the WTO has concluded to win Brazil against Indonesia so that Indonesia has to lift its import restriction.

Indonesia was found to be inconsistent with the WTO agreement due to: (1) positive list that regulated which animal could be imported; (2) domestic production prioritization and import restriction that depends 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 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 imposed would 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 business associations and labor unions, 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 in regard to laws and other legal instruments imposed to achieve its national interest and other political goals, particularly those 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 body and answer the questions from other member states - as information circulated 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 who are technically responsible for agricultural issues, have a contrasting ideological foundation, where both parallelly received pressures from different actors. The constant pressures leave each ministry's hand-tied, thereby dissecting the 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 a Janus-faced in two level negotiations.

## **11. Contending Perspective of Agriculture Liberalization: Sitting on the Fence**

Indonesia's loss at 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 be the contender for 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.<sup>9</sup>

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 firms enjoyed market protection is that Brazil per se is the world's second-largest broiler producer and chicken meat exporter (Aranda et al., 2019). However, they have been enjoying the narratives of national populism to protect, meaning that it is a free market in disguise.

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<sup>9</sup> Author's Interview, B2, October 2020

In contrast to the firms' 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. Specifically, it takes into account the market and economic considerations that would have been increased if the bureaucratic polity had continued non-automatic import license (CIPS Indonesia, 2020). Moreover, the CIPS argues that non-automatic import license argues would harm farmers, who also require imported goods in the production process.

Nevertheless, the farmer union has explicitly advocated the rejection of neoliberalism, including the capitalist global trade system and the WTO. SPI persistently contends that liberalizing agriculture would have sacrificed the vulnerable group, paving the way for creating a hierarchy in which the economically powerful group (capital owner and foreign companies) exploited the local farmers. Instead of demonstrating a trickle-down economic effect, the free market would eventually benefit the rich, while the domestic worker could not enjoy a level playing field. However, what labor union has 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, sprawling social integration and nationalism.

## **12. WTO System: Critique and What's Next?**

Insofar as its liberalization, agricultural issues in the WTO still linger to be the most contentious issues as it directly deals with many pressure groups that enjoy protectionism. Although Indonesia has raised concerns regarding food security, rural development, and environmental protection in WTO rounds, instead, the AoA has institutionalized unfair agricultural trade between developed and developing countries (Rumokoy, 2020). Furthermore, the AoA seeks to reduce the non-tariff barriers to market access, domestic support, and export competition, resulting in distorted trade. However, such non-trade concerns prolong the deadlock of the Doha Round. In turn, Indonesia's agricultural position in the international trade and level of

economic development amplify what late capitalism has suggested.

In achieving food self-sufficiency, the WTO agreed that it is a legitimate policy objective, but under a condition in which the country does not violate the agreements. The MoT official argues that the WTO system is asymmetrical and imbalanced, thus marginalizing country 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.

With regard to conformity, the DSB is obliged to surveil Indonesia's ruling implementation. Indeed, it is impractical to immediately comply with the ruling. Indonesia has to reallocate the resources and amend a legal instrument that needs to undergo a political process, constraint, and reality. However, Indonesia has no choice but to comply 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 systemic and structural issues, Indonesia continues to defend its national interest by proposing an AoA reform to be more favorable toward developing countries through a rules-based approach, which is negotiated and judicial law-making. 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.

### **13. The Aftermath of the Dispute**

The MoT suggests that Indonesia's loss at the WTO is a lesson for Indonesia. The government will contemplate and scrutinize each policy's unintended consequences that could have resulted in a trade dispute. In addressing the dilemma of politically sensitive 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 market and feed the Indonesian people while undermining domestic producers and locally produced staple

foods. Public communication is also necessary to contain people's enragement 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 for leaders to appeal to their constituency.

On the other hand, Indonesia needs to avoid unnecessary backlash from other countries. While the WTO is structurally accountable for ensuring its member states to conform to the agreements, asymmetrical relations among nations reinforce the global trade regime's hierarchy. 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 has yet to achieve a balanced approach.

#### **14. Conclusion**

The trade dispute between Indonesia and Brazil has exhibited an intellectual exercise where the use of the two-level game is theoretically useful in analyzing why Indonesia had difficulties in complying with the WTO agreements. This is because Indonesia received a wide array of centrifugal and centripetal forces pressuring the government so that it left the hand-tied. In Indonesian political dynamics, economic nationalism as an ideology has been embedded since the early day of its independence, reinstating the state-centrism in economic affairs in the name of national interest. In recent times, however, nationalist and populist narratives have been used as a political language and tool to grasp a wider constituency to further justify patrimonial top-down economic in agricultural reform, particularly in achieving self-sufficiency.

At the bottom, business interests and labor unions as political actors have exerted their influence on the government's decision-making. The former's capability in utilizing its specific business interest in the supply chain stage enables firms to have more political options, whereas the latter's approach is more confrontational. The latter has been vocal in engaging in national populism narratives as it has limited political options and is dependent on the state. Nonetheless, the government's mercantilist policies, in turn, actually benefitted integrated firms. The political patronage given to larger firms allows them to dominate the national market by way of setting predatory pricing due to the absence of stronger foreign competitors.

The unfair global trade system under the WTO further underpins Indonesia's economic nationalism in the world trade negotiation despite its amendments on national laws. In fact, up until now, no chicken meat and products from Brazil have been imported to Indonesia. Uneven economic development as a result of late capitalism and vulnerable small farmers to liberal trade policy have justified mercantilist policy preference in accordance with the national interest. Therefore, there is no fifty-fifty negotiation. In this case, domestic actors seemed to have more of the latent capacity to influence the government's decision-making process. Whereas the WTO and other countries forces remain to be structurally influential. Thus, Indonesia has to maintain its Janus face.



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