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Ineffectiveness Implementation of Indonesia-Japan Economic Partnership Agreement for Indonesia

Vania Anindya^{1*}, Claresta Amantha Kamsari¹, Kenneth Jonathan M. D.¹, M Reval Alfiadi Farisqi¹

¹ Faculty of Law, Universitas Pakuan, Bogor, Indonesia

* Corresponding author: Vania Anindya (vaniaanindya03@gmail.com)

Abstract

Indonesia-Japan Economic Partnership Agreement (IJEPA) is a bilateral economic cooperation between Indonesia and Japan that aims to create fair, balanced, and measurable benefits for both countries. This study aims to identify factors that hinder the sustainability and effectiveness of IJEPA implementation. The method used is a qualitative approach with data search via the internet and literature study as the main method of information collection. The results of the study indicate that the implementation of IJEPA has not fully provided optimal benefits for Indonesia. One of the main problems found is that Indonesia has not been able to create a competitive advantage in its industrial sector, which has caused it to lag behind Japan. High dependence on imported raw materials and suboptimal existing production factors are the main obstacles. In addition, the presence of many foreign companies operating in Indonesia also worsens the competitiveness of the domestic industry. Thus, policies and strategic steps are needed that can strengthen Indonesia's competitiveness so that IJEPA can provide greater benefits and support the development of the national industry in a more sustainable manner.

Keywords

Bilateral Economic, Competitiveness, Effectiveness, Sustainability.

1. Introduction

The economies of countries in various parts of the world are of course increasingly consolidated as an impact arising from globalization which can facilitate the flow of transfers related to information about goods and/or services from one country to another (Sitepu, 2019). The Indonesian government decided to create various diplomatic strategies and raise policies regarding trade that have a broader outlook towards the outside or commonly referred to as "Outward-looking Policy" through a series of Free Trade Agreements (FTA) both bilaterally and multilaterally, one of which is Indonesia - Japan Economic Partnership Agreement (IJEPA). Japan is considered a country that plays a major role as a main partner for Indonesia due to its trade and investment factors (Bhattacharyay & Mukhopadhyay, 2015). Japan is one of the countries with the largest export destinations. Then the development of exports and imports between Indonesia and Japan which is based on the Harmonized System classification product obtained from Trademap produces data that before the implementation of IJEPA, the development of exports and imports was more visible and increased every year, reaching 27,743,856 thousand in export value and 15,129,173 thousand in import value in 2008 (Sitepu, 2019).

IJEPA is an agreement regarding economic partnership between Indonesia and Japan which has been based on the principle of Economic Partnership Agreement (EPA). IJEPA has been signed by the heads of state of Indonesia and Japan, namely President Susilo Bambang Yudhoyono and Japanese Prime Minister Shinzo Abe since August 20, 2007 in the Jakarta area, IJEPA has been effectively implemented since July 1, 2008. IJEPA is also based on three main pillars, namely investment or trade facilities and cooperation and liberalization (Center, 2008). This IJEPA tends to lead to ease of access to the goods and services trade market, then strengthens investment and sending Indonesian workers (*Tenaga Kerja Indonesia*/TKI) (Harahap & Gunawan, 2022). Through IJEPA, Indonesia also finds it easier to access the Japanese market with preferential tariff rules and reductions in other non-tariff barriers that will be very easy to exploit by business actors who plan to make Japan an export destination.

As stated in the Indonesian Embassy in Tokyo, the IJEPA Agreement covers several things, including much better market access to support trade in goods, services and investment, Regulations covering intellectual property and government procurement, Facilities provided for trade that also implement regular meetings between the Indonesian and Japanese governments and Economic cooperation and capacity building which also includes the 4.0 caregiver industry, and the Creative Economy Project. IJEPA provides opportunities for import and export trade between Indonesia and Japan at preferential tariffs (0% tariffs or low tariffs) (Darmastuti et al., 2022). This tariff is interpreted as an import duty tariff that has been specifically set based on an international agreement. The implementation of IJEPA began on July 1, 2008, after the agreement was signed by President Susilo Bambang Yudhoyono and Japanese Prime Minister Shinzo Abe on August 20, 2007. In 2013, Indonesia proposed to hold an implementation objective or what is called a general review, which refers to Article 151 of IJEPA which requires a review to be held 5 years after the implementation of an agreement to show the implementation and operationalization of the agreement and the impact of related matters for Indonesia and Japan.

The meeting held in this General Review (GR) was held on September 12, 2014, precisely in Jakarta. The last General Review meeting, namely the 12th meeting, was held on May 20-May 22, 2019 in Tokyo, Japan. The results of the GR-IJEPA produced recommendations and reports that will be notified to the trade ministers of both countries concerned. President Joko Widodo and Japanese Prime Minister

Shinzo Abe have confirmed the GR-IJEPA which has been completed right on the sidelines of the G20 Summit in Osaka, Japan on June 28, 2019. The results of the agreement stated that they agreed to continue negotiations to amend the IJEPA agreement which has been adjusted to the results of the GR as stated in the Joint Report (Darmastuti et al., 2022). Since the implementation of IJEPA, there have been several products whose export values have increased quite significantly, such as Precious Metal Scrap (HS 7112); Cars and Motorcycles (HS 8703); Palm Oil (HS 1511); Printing Machines (HS 8443); Coal Briquettes (HS 2701); Footwear (HS 6404) and Natural Rubber (HS 4001). There are still many Indonesian products that certainly have the opportunity to be traded or marketed in Japan, because the IJEPA agreement has been reviewed (Sukarniati et al., 2024).

There are several benefits of IJEPA for Indonesia, including Amplification of Performance for Trade in Goods, Trade in Indonesia and Japan after the implementation of IJEPA in 2009-2017 has increased rapidly by 155%, where exports grew by 101.7% and imports by 322.1%. International trade activities greatly support the economy (Zahra, 2023). Furthermore, Amplification of Service Trade Performance, on a general scale, Indonesia has exported many business services to Japan and has imported business services and cultural recreation services from Japan. Amplification of investment, IJEPA is considered to be increasingly attracting Japan's attention in order to foster investment in Indonesia. This can be seen from the soaring trend of Japanese investment in Indonesia from 2.6% in 2000-2008, now it has increased to 28.9% per year 2009-2017. Amplification of the sending of workers, Japan has opened up opportunities for sending nursing workers and elderly nurses so that they can easily get jobs in Japan. This has been recorded in 2008-2017, Indonesia has succeeded in sending 622 nursing workers and 1,494 elderly nurse workers. This investment provides benefits for the country, such as increasing economic growth, creating jobs, and increasing state revenues (Husnah & Ichwan, 2023; Kumalasari & Farida, 2024). Amplification of competitiveness, the existence of a Capacity Building Scheme that can support the growth of supporting industries, including SMEs, which are considered to function for industrial development in Indonesia (Khurrohmah et al., 2022; Aniqurroziqi et al. 2023). Amplification of people's purchasing power, the increasing development of export activities and investment, the breadth of employment opportunities, the increasing development of industry and economic growth will increasingly support the attractiveness of buying from the community.

Article 13 paragraph (1) of Law Number 17 of 2006 concerning Customs stipulates that the Director General may re-determine tariffs and customs values for calculating import duties within a period of 2 years calculated from the date of customs notification. In this article, what is mentioned as "Customs" is everything related to control over the flow of goods leaving and entering the customs area and the collection of export and import duties. Presidential Regulation of the Republic of Indonesia Number 36 of 2008 concerning Ratification of the Agreement between the Republic of Indonesia and Japan for an Economic Partnership is a regulation that ratifies the agreement between the Republic of Indonesia and Japan regarding EPA. This agreement aims to strengthen economic relations between the two countries, covering various fields, such as trade in goods, services, investment, and cooperation in various other sectors (Seniwati et al., 2021; Pratama & Yuliana, 2024).

The contents of Presidential Regulation Number 36 of 2008 generally include ratification of the agreement, signing of the agreement, general provisions in the agreement and the establishment of a joint committee (Indonesia, 2008). This Presidential Regulation ratifies the agreement that has been signed between Indonesia and Japan, known as the EPA, which applies to improve economic relations in various fields. Signing of the Agreement, stipulates that the agreement

was signed on August 20, 2007, in Tokyo, Japan. General Provisions in the Agreement, regulate various provisions contained in the agreement, such as opening markets for goods and services, regulations regarding import tariffs, and various other policies that aim to create a more controlled environment for trade and investment between the two countries (Burri & Polanco, 2020).

Implementation of the Agreement, states that this presidential regulation serves as a valid legal basis for the implementation of the agreement between Indonesia and Japan. Establishment of the Joint Committee, regulates the formation of a joint committee that will be tasked with overseeing the implementation of the agreement and solving problems that arise in connection with the implementation of the agreement (Guthrie et al., 2019). Regulation of the Minister of Finance Number 229/PMK.04/2017 regulates the procedures and methods for applying import duty rates on imported goods originating from partner countries that have international agreements or arrangements with Indonesia. The purpose of this regulation is to ensure that the provisions of import duty rates on imported goods that receive special facilities based on international agreements are applied appropriately and in accordance with procedures. This regulation includes administrative mechanisms that must be adhered to in determining rates, as well as supervision methods so that special facilities or arrangements can be applied accurately. With this regulation, it is hoped that there will be legal certainty and smoothness in the process of importing goods from partner countries that have agreements with Indonesia. This study aims to identify factors that hinder the sustainability and effectiveness of IJEPA implementation. This study seeks to contribute to the broader discourse on economic diplomacy and international trade agreements.

2. Methods

This study uses a qualitative method with an internet search approach and literature study as the main method of data collection (Roosinda et al., 2021). Internet technology provides wide access to various information from various sources and times. In this case, researchers conducted a study of various sources such as thesis, blogs, and journals that are relevant to the research topic. The use of these sources aims to enrich the data and support the discussion according to research needs. Primary data in this study is data obtained directly from the object that is the focus of the study. This data is collected through various primary literature, such as journals, theses, and blogs that are closely related to the research topic. These sources are carefully selected to ensure their relevance and validity to the research objectives. Data analysis is carried out by presenting information in the form of an organized description, so that it is easy to understand. Data presentation includes narratives, flows, and detailed explanations to help readers understand the cause-and-effect relationships found in the study. The analysis process also involves a verification stage to ensure that the conclusions drawn are based on valid and accountable data. This method allows researchers to utilize advances in internet technology as the main means of collecting information. Thus, the research results can provide comprehensive and relevant insights related to the topic being studied. This process also strengthens the theoretical and analytical basis in order to produce conclusions that can make a significant contribution to the development of science.

3. Results & Discussion

3.1. Implementation of the Indonesia-Japan Economic Partnership Agreement (IJEPA)

The ineffectiveness of the implementation of the Indonesia-Japan Economic Partnership Agreement (IJEPA) for Indonesia is caused by various factors, including policies, structural barriers, and challenges in the field. Although designed to increase trade, investment, and economic cooperation with Japan, IJEPA has not produced maximum results. One of the main obstacles is the ineffectiveness of the Manufacturing Industry Development Center (MIDEC), which was designed to support Indonesia's industrial sector. However, weaknesses in the implementation concept have hampered the achievement of the expected goals (Kambey, 2016). MIDEC should function as a driving force for industrial development, but the lack of synergy between policies and implementation in the field is a major challenge. In addition, other obstacles such as the less than optimal utilization of IJEPA opportunities and limited technical support have contributed to this ineffectiveness. Therefore, improvements are needed in program planning and implementation to increase the benefits of IJEPA for Indonesia.

Although the IJEPA aims to reduce or eliminate import tariffs, several of Indonesia's main products, especially in the agricultural sector, still face high tariffs in the Japanese market. This limits the competitiveness of Indonesian products, even though this partnership provides a number of trade facilities. In addition to tariff barriers, Indonesian products also face significant non-tariff challenges in Japan. Complicated regulations, strict technical standards, and complicated administrative procedures are major obstacles, in line with several previous studies stating that complicated regulations hinder economic progress (Jasman & Hwihanus, 2023; Mastur et al., 2024). Japan sets high standards for imported products, especially regarding safety, health, and environmental aspects. These standards are often difficult for Indonesian business actors to meet, especially MSMEs that have limitations in adjusting products to these requirements. Japan's high standards reflect the country's efforts to maintain quality and consumer trust. However, for Indonesian exporters, this requires major adaptations in the production, packaging, and certification processes. With these tariff and non-tariff challenges, support from the Indonesian government is needed in the form of training, certification, and economic diplomacy to increase access for Indonesian products to the potential Japanese market.

Significant barriers to Indonesian products, especially in the agriculture and fisheries sectors, are often caused by the inability to meet Japanese market criteria. Imported products usually have better quality or lower prices (Mannara, 2013; Bien & Tien, 2019). The implementation of IJEPA further increases these challenges, where superior Japanese products, such as electronics and automotive goods, can enter the Indonesian market without being taxed. This tightens domestic competition, while suppressing the competitiveness of local products in the international market. In addition, the Indonesian agriculture and fisheries sector also faces internal obstacles, such as a lack of innovation, technology, and quality standards that do not meet global requirements. This ineffectiveness reflects not only internal weaknesses but also serious external challenges. The Japanese market is known for its strict standards, so many Indonesian products have difficulty penetrating it (Ibrahim & Fadillah, 2021).

On the other hand, global competition is getting fiercer with the presence of products from other countries that offer better quality at competitive prices (Hosnaidah et al., 2023). The combination of these factors makes Indonesia's position in international trade, especially with Japan, less than optimal. To overcome this problem, strategic and systematic steps are needed. The government and industry players need to improve innovation, technology, and production

capacity to meet international standards. In addition, training and support programs for farmers and fishermen need to be improved to ensure better product quality. In the long term, strengthening the competitiveness of local products is key to improving Indonesia's position in global trade and reducing dependence on the domestic market.

3.2. Challenges in Achieving the Objectives of the Agreement

The results of the study related to the ineffectiveness of the implementation of the Indonesia-Japan Economic Partnership Agreement (IJEPA) for Indonesia show various challenges that hinder the achievement of the objectives of the agreement. Although IJEPA was designed to improve trade relations, investment, and economic cooperation between Indonesia and Japan, several important aspects of its implementation have not gone as expected. Several key findings from the study evaluating the ineffectiveness of IJEPA for Indonesia include obstacles in accessing the Japanese market, infrastructure and connectivity problems, lack of socialization and understanding of IJEPA, inconsistent policy formulation, differences in business culture and practices. Tariff and Non-Tariff Barriers, despite tariff reductions in IJEPA, Indonesian exports, especially agricultural and manufactured products, still face quite high import duties in the Japanese market. In addition, non-tariff barriers, such as strict technical standards and complicated administrative procedures, remain significant obstacles for Indonesian products to enter the Japanese market. High Quality Standards, Indonesian export products, especially in the agricultural and fisheries sectors, often do not meet the quality standards applied by Japan. This makes it difficult for Indonesia to fully utilize the opportunities provided by IJEPA in terms of market access.

Infrastructure Limitations in Indonesia, one of the major obstacles in the implementation of IJEPA is the lack of adequate infrastructure in Indonesia, such as port facilities, transportation, and logistics. Indonesia's inability to meet these infrastructure needs hinders the smooth flow of exports to Japan. Limited Connectivity, although IJEPA aims to improve connectivity between the two countries, in reality, inefficient logistics networks and high shipping costs still hinder the flow of goods and greater investment. Inadequate Socialization, research shows that many Indonesian business actors, especially from the MSME sector, do not fully understand the benefits and provisions contained in IJEPA. Without a clear understanding of this agreement, they have difficulty accessing existing opportunities. The ability of human resources in Indonesia to take advantage of the opportunities provided by IJEPA is limited. Many business actors are not trained or do not have the expertise to meet the very specific requirements of the Japanese market.

Uncertainty in Indonesia's frequently changing trade and economic policies negatively impacts the stability and attractiveness of the market for Japanese investors. Inconsistent policies often disrupt long-term investment planning, limit potential trade growth, and create risks for business actors. In the context of implementing the IJEPA, inter-agency coordination is key to success. However, research shows that weak coordination between the central and regional governments, as well as between related agencies, hinders the achievement of more integrated policies. This ineffectiveness slows down the implementation of strategic trade policies and makes it difficult to adapt to global market needs. In addition, differences in business ethics and practices between the two countries are also challenges. Indonesia's flexible business culture often differs from Japan's approach that emphasizes discipline, ethics, and long-term orientation. This affects the way negotiations are conducted, contract handling, and the formation of sustainable business relationships. These difficulties can hinder synergy between business actors and require greater adaptation efforts from Indonesia. To maximize the benefits of IJEPA, increased cross-agency coordination, consistent policy

formulation, and training programs to improve understanding of Japanese business culture are needed. These steps are expected to strengthen economic relations between the two countries and create a more stable and productive trading environment.

4. Conclusion

The Indonesian government has prioritized diplomatic strategies and outward-looking trade policies, particularly through free trade agreements such as IJEP. Japan is an important trading and investment partner for Indonesia, with a significant share of exports going to Japan. However, the implementation of IJEP has faced several challenges. The MIDEK has not effectively supported Indonesia's industrial sector due to implementation weaknesses. Tariff and non-tariff barriers in Japan, especially high product standards, hamper Indonesian exports. Japanese products have also flooded the Indonesian market since IJEP came into effect. Internal weaknesses in Indonesia's industrial development and external challenges from Japan have contributed to the ineffectiveness of the agreement. The study highlights the obstacles that hinder the goals of IJEP. Indonesian exports still face high import duties in Japan, and non-tariff barriers such as technical standards are a barrier. Indonesia struggles to meet Japan's high quality standards, limiting market access. Lack of infrastructure and limited connectivity in Indonesia hamper exports and investment flows. A lack of understanding of the provisions of IJEP among Indonesian businesses, especially in the MSME sector, makes it difficult to access opportunities. Indonesian human resources often lack the skills needed to meet Japanese market demand. Inconsistent policymaking in Indonesia creates uncertainty for Japanese investors, disrupting long-term plans. Weak coordination between government agencies also hampers integrated policy implementation.

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