

## Research Article

### The Impact of Indonesia-Bangladesh Railway Cooperation on the Establishment of Bilateral Preferential Trade Agreements

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#### Abstract

*This research discusses the railway cooperation between Indonesia and Bangladesh which is motivated by the interest of Bangladesh to revitalize railways and increase the domestic demand for railways. This research aims to find out why the Indonesia-Bangladesh cooperation in the railway sector has a significant impact on the formation of the Indonesia Bangladesh Preferential Trade Agreement (IB-PTA) in 2018. This research using interview and literature study methods. The theory used in this research is the theory of interdependence and economic integration. The conclusion of this research is that the Indonesia-Bangladesh railroad cooperation has a significant impact, causing a sense of mutual dependence. The two countries finally agreed to form economic integration in the form of PTA in order to improve the economies of each country.*

**Keywords:** Preferential Trade Agreement, Indonesia, Bangladesh, railways

#### I. Introduction

Bangladesh is a country with a population of 160 million people and the majority of them use rail transportation every day. In fact, just before Eid al-Fitr and Eid al-

Adha, they are willing to jostle until they climb and hang on the train just to return to their hometown. Men, women and children dare to die to climb the roof of the train and find a gap so they can take the train to their destination. However, this condition is not supported by adequate railway facilities. For example, in 2015 the Bangladesh railway had 1182 MG type passenger trains (meter gauge)<sup>3</sup>, some of which have been operating for more than 30 years. Meanwhile, there are 324 BG (broad gauge)<sup>4</sup> trains, half of which have been running for more than 30 years. In addition, there are several trains that are considered unworthy of the road and only 18 trains that use air conditioning or air conditioning.

With a very dense population and a poor transportation management system, especially in the railway sector, the Bangladeshi government is motivated to hold a tender for the procurement of passenger trains to meet the transportation needs of its people. In several tenders held by the Bangladesh Railway Company, Indonesia has won the tender three times, namely in 2005, then the second and third tenders in 2014 and 2017. Indonesia's victory at the train tender in Bangladesh was the beginning of Indonesia's cooperative relationship. -Bangladesh in the railway sector.

Indonesia's victory at the tender held by the Bangladesh Railway Company was inseparable from the role of PT Industri Kereta Api (Persero) which is commonly abbreviated as PT INKA (Persero). PT INKA (Persero) is the first integrated state-owned company (BUMN) in Southeast Asia. The focus of this state-owned company is to produce high quality products in the railways sector. (PT.INKA, 2017)

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<sup>3</sup> Meter Gauge (MG) type trains are used on rails or tracks with a width of 1,000 mm.

<sup>4</sup> Broad Gauge (BG) type trains are used on rails or tracks with a width of 1,676 mm.

The tender held by the Bangladesh Railway Company in 2006 for the procurement of 50 passenger trains was valued at USD 13.8 million. A further tender in 2014 signed a contract worth USD 72.39 million for the delivery of 150 passenger trains. In the 2017 tender, PT INKA (Persero) also signed a contract to export 250 passenger trains with a total contract value of USD 100.89 million. (PT.INKA, 2019)

On 28 January 2018, Indonesian President Joko Widodo held a bilateral meeting with the Prime Minister of Bangladesh, Sheikh Hasina at the Prime Minister's Office, Dhaka. During the meeting, Indonesia and Bangladesh agreed that the two countries wanted to strengthen cooperation in the economic sector and create new cooperation.

After the bilateral meeting, the two countries produced 5 cooperation agreements.

First, the MoU (Memorandum of Understanding) on Foreign Office Consultation. Second, Joint Communiqué on the cooperation to Combat IUUF (Illegal Unreported Unregulated Fishing). Third, the Joint Ministerial Statement on the Launching of the Negotiations for Indonesia Bangladesh Preferential Trade Agreement (IB-PTA). Fourth, the MoU between the Bangladesh Power Development Board (BPDB) and PT Pertamina regarding the Integrated Power Project. Fifth, the LoI (Letter of Intent) regarding the LNG supply agreement from Pertamina to Petrobangla. (Kantor Staff Presiden, 2018)

Prior to 2018, free trade relations between Indonesia and Bangladesh were carried out multilaterally through the 2006 Preferential Trade Agreement (PTA) with the D-8 (Developing 8 Countries) group, including Egypt, Nigeria, Turkey, Iran, Indonesia, Malaysia, Pakistan and Bangladesh. (Husein, 2015) Meanwhile, the IB-PTA, which was

formed in 2018, is the first Indonesia-Bangladesh free trade cooperation carried out on a bilateral basis, moreover, the IB-PTA covers the railroad car trade that has never been done before.

The third point in the cooperation agreement between Indonesia and Bangladesh, namely the Joint Ministerial Statement on the Launching of the Negotiations for Indonesia Bangladesh Preferential Trade Agreement (IB-PTA), was formed to create free trade, namely by removing trade barriers and lowering tariffs on goods agreed by the two countries so that trade flows become larger and mutually beneficial. In the bilateral relationship between Indonesia and Bangladesh, so far there has not been a specific IBPTA, so the tariffs for goods and services are still subject to high fees.

The formation of the IB-PTA in 2018 was carried out after PT INKA (Persero) succeeded in winning three consecutive train tenders by the Bangladesh Railway Company, namely in 2005, 2014 and 2017. The nation's children's train is considered to have succeeded in supporting the development of connectivity in Bangladesh. The people of Bangladesh are satisfied and proud of this super-fast and super strong train made in Indonesia which is able to cut the travel time from the Rajshashi-Dhaka route which was previously 6 hours to 4.5 hours.

In a bilateral meeting between Indonesia and Bangladesh on January 28, 2018, before the two countries agreed to form the Indonesia Bangladesh Preferential Trade Agreement (IB-PTA), President Joko Widodo first expressed his praise for Bangladesh who had trusted PT INKA (Persero) to help in developing connectivity in Bangladesh. In total there are 400 passenger train cars sent by PT INKA (Persero) to Bangladesh. The achievement of PT INKA (Persero) has initiated President Joko Widodo

to submit an MoU for Indonesia Bangladesh Preferential Trade Agreement (IB-PTA).

## II. Methodology

### a. Theoretical Framework: Interdependence

According to Robert Keohane and Joseph Nye, the definition of interdependence is interdependence between countries which will lead to wider cooperation and reduce armed conflict. A country will not be able to meet the needs of its own country without assistance from other countries. So that cooperation is considered very necessary to complement and benefit each other. The establishment of cooperative relations between countries will make countries become interdependent with one another. (Mansbach & Rafferty, 2008, p. 3)

Keohane and Nye have another model of interdependence, namely complex interdependence. Complex interdependence theory has three main characteristics namely: (1) The usage of multiple channels between societies in interstate, trans governmental and transnational relations; (2) The absence of hierarchy among issues (Multiple Issues); (3) Military force is not used by governments toward other governments within the region, or on the issues, when complex interdependence prevails. (Rifda, 2018, pp. 11-13)

### b. Theoretical Framework: Economic Integration

In a book entitled *The Theory of Economic Integration*, Bela Balassa defines economic integration as:

“Economic integration as a process and as a state of affairs. Regarded as a process, it encompasses measures designed to abolish discrimination between economic units belonging to

different national states; viewed as a state of affairs, it can be represented by the absence of various forms of discrimination between national economies.” (Balassa, 1969, p. 1)

According to the definition of Bela Balassa, that economic integration is a process and a condition. It is seen as a process, because it includes measures designed to eliminate discrimination between the economic units belonging to different countries and is considered a condition, because it can be represented in the absence of various forms of discrimination between the national economies. The purpose of the concept of economic integration is to increase trade flows, open markets and facilitate trade between member countries. The existence of economic integration is expected to be able to provide benefits and eliminate trade barriers such as high tariffs, differences in regulations and long and long export-import procedures. There are 6 stages of economic integration according to the meaning of Bela Balassa, namely: (Balassa, 1961, p. 176) (1) Preferential Trade Agreement (PTA); (2) Free Trade Area (FTA); (3) Custom Union; (4) Common Market; (5) Economic Union; (6) Political Union. Of the six stages of economic integration, the author refers to the first stage, namely PTA to analyze the Indonesia-Bangladesh cooperation in the railroad sector.

The Preferential Trade Agreement (PTA) is formed by two (bilateral) or several (multilateral) countries that both agree on reducing tariffs and eliminating trade barriers between member countries and differentiating them from non-member countries. This stage is the easiest and earliest type of economic integration. Preferential Trade Agreement (PTA) is usually carried out through bilateral relations because it is considered more effective in achieving free trade and can be implemented by countries

that are not regionally close to each other, such as Indonesia and Nigeria.

### *c. Method*

The approach used in this research is qualitative explanative. Explanative research provides explanations and reasons in the form of causal relationships. Explanative research trying to answer the question "why". (Morissan, 2019, p. 29) Researchers use explanative qualitative because they want to explain the cause and effect relationship based on facts in the field. Then the facts that occur in the field will be implemented with the relevant theory. This method was chosen because it is believed to be able to explain the significant impact of cooperation between Indonesia and Bangladesh in the railway sector on the formation of the Indonesia Bangladesh Preferential Trade Agreement (IB-PTA) in 2018.

## **III. Analysis and Discussion**

### *a. Indonesia-Bangladesh Cooperation in the Railway Sector*

Indonesia and Bangladesh have cooperated in the procurement of railroad cars since 2005. Prior to 2005, Indonesia had never collaborated in the transportation and connectivity sector, especially railways. 2005 saw the beginning of this good relationship, namely with the participation of Indonesia in the tender for the procurement of railroad cars held by Bangladesh. The tender was won by PT INKA (Persero) from Indonesia which was able to get rid of China and India as competitors. The number of train orders in the first tender was 50 passenger trains of type BG.

According to Nungki Kus Lutfiani as the Marketing Division Staff of PT INKA (Persero), Participants in the tender for the procurement of passenger train cars are train

manufacturers from China and India which have the characteristics of the lower middle market and have good quality and affordable prices. This is different from the European and Japanese markets which target countries with the upper middle class market.

In 2014, the Bangladesh Railway Company (BR) again opened an open tender for the procurement of passenger train cars, which was participated in by 3 countries, namely: 1. China (CNR Tangshan and CSR Nanjing Puzhen), 2. India (Rites Limited) and 3. Indonesia (PT INKA). The train specifications specified by Bangladesh are MG and BG types of passenger trains that use Air Conditioned and Non-Air Conditioned trains, generator trains, and dining trains. The number of passenger seats for the Meter Gauge train is 55 seats for the train type that uses air conditioning and 60 seats for the train type that doesn't use air conditioning. While the Broad Gauge train has 90 seats, both for the type of train that uses air conditioning or not.

Indonesia through PT Industri Kereta Api (Persero), or commonly known as PT INKA (Persero), succeeded in winning the 2nd tender with a total order of 150 passenger train cars, which is worth a contract of USD 73 million. In 2017, Bangladesh again opened the 3rd tender for the procurement of 250 train carriages participated by the same 3 countries with the same specifications and several other additions. In that year, Indonesia again won the tender with a total contract value of USD 100.8 million or equivalent to IDR 1.4 trillion.

According to Haryo Prasodjo, a train observer and a lecturer in international relations at the Muhamadiyah University in Malang, he said that there were 6 important factors for Indonesia's victory, namely: 1) cheaper prices compared to China and India. 2) good quality, reliable and super strong trains 3) delivery and completion of fast trains 4) There is operational assistance and a guarantee for 2 years 5) There is cooperation

with MNC in Bangladesh which helps Indonesia in the tender process 6) there is an emotional connection with Indonesia because Bangladesh prefers Muslim majority countries.<sup>15</sup>

*b. The Role of Railway Cooperation for Indonesia and Bangladesh*

The role of Indonesia-Bangladesh cooperation in the railroad sector for Indonesia has a positive impact on the country's economy and is in line with its national interests. It is proven that in 2016 the export value of Indonesian trains entered the 10 countries with the largest train exports in the world with a sales value of 66 million USD. This number makes Indonesia the 8th railroad exporting country followed by the Netherlands and Norway under it. This railway cooperation is in line with

Indonesia's National Interest, including: achieving sustainable development goals (SDGs), as a Go International effort from the railroad sector, to become a leader in the development of the rail industry in the Southeast Asia region, Indonesia's steps to expand to South Asia, Africa, Australia and Eastern Europe. Meanwhile, the role of this cooperation for Bangladesh is that since 2005, Indonesia has helped solve various problems related to rail transportation in one of the countries in the South Asian region. The problems that are addressed start from developing and improving inter-city connectivity, meeting domestic rail needs, improving the railway transportation management system and developing the railway industry as well as revitalizing Railways. (ANTARA, 2019)

*c. Establishment of Indonesia Bangladesh Preferential Trade Agreement (IB-PTA) 2018*

On January 28, 2018, the President of Indonesia, Mr. Joko Widodo and his staff

made a state visit to Bangladesh. The results of the meeting were 5 cooperation agreements, namely: First, the MoU (Memorandum of Understanding) on foreign office consultations. Second, a joint communique about cooperation in fighting IUUF (Illegal Unreported Unregulated Fishing). Third, Mutual Agreement on Launching of negotiations for a preferential trade agreement (IB-PTA). Fourth, the MoU between the Bangladesh Power Development Board (BPDB) and PT Pertamina regarding the Integrated Power Project. Fifth, the Lol (Letter of Intent) regarding the LNG supply agreement from Pertamina to Petrobangla. (Kantor Staff Presiden, 2018)

As a follow-up to the agreement, early 2019 the two countries held the first meeting for the Trade Negotiating Committee (TNC) in Bangladesh and agreed on the timeline and work plan for the IB-PTA negotiations. Meanwhile, the second meeting for the Trade Negotiating Committee (TNC) was held in Bali, Indonesia on 22-23 July 2019. This second TNC meeting, representatives of Indonesia and Bangladesh, successfully finished discussing the text of the IB-PTA agreement and began discussing the text of the provisions of the certificate of origin (Rules of Origin / ROO) in addition to the agreement. Indonesia and Bangladesh have also agreed on a schedule for exchanging demand and supply lists regarding market access and tariff reductions proposed by Indonesia.

The success of establishing a PTA between Indonesia and Bangladesh is based on the satisfaction of cooperation between the two countries that has been going on since 2005. Several important points have prompted the two countries to apply the concept of economic integration in the form of a PTA, namely: (1) Indonesia and Bangladesh agree to continue to strengthen cooperation economy; (2) Cooperation in

various fields which keeps increasing from year to year between Bangladesh and Indonesia; (3) The existence of enormous economic potential in the Indian Ocean region made Indonesia and Bangladesh agree to move the economic wheels in the region; (4) The spirit of *ukhuwah Islamiyah* of the two countries with a majority Muslim population encourages Indonesia and Bangladesh to spread the values of tolerance and peace and help each other to prosper Muslims around the world through cooperation in various international forums, one of which is the OIC. In this regard, the two countries agreed to form the Indonesia Bangladesh Preferential Trade Agreement (IB-PTA) to strengthen the economies of each country and improve the welfare of their people. Lowering tariffs and removing other trade barriers make trade flows bigger and mutually beneficial.

#### *d. The Interdependence Relationship between Indonesia and Bangladesh in the Railway Sector*

The theory of interdependence explains the interdependence between countries which will lead to broader cooperation and reduce armed conflict. In this study, the interdependence theory shows the interdependence between Indonesia and Bangladesh in the railways sector which then encourages the formation of the Indonesia Bangladesh Preferential Trade Agreement (IB-PTA).

The principle of mutual dependence that occurs in the relationship between Indonesia and Bangladesh is seen as a relationship of interdependence between the two countries, especially in the railway sector. The interdependence of the two countries in the railroad sector has made Indonesia and Bangladesh able to fulfill matters relating to the interests of their countries. Indonesia needs Bangladesh to expand the Indonesian

market to non-traditional countries, increase the number of rail exports, while Bangladesh needs the Indonesian state to increase and develop intercity connectivity, improve the railway management system and meet domestic rail needs. This sense of interdependence shows a reciprocal effect.

The interdependence relationship between Indonesia and Bangladesh corresponds to three main characteristics of interdependence, namely:

a) The usage of multiple channels between societies in interstate, transgovernmental and transnational relations. Interdependence between the two countries is created not only because of the interaction of state actors, but also non-state actors. Actors who take part in the train trade from the Indonesian side consist of the central government, PT INKA (Persero), a number of large industries and small and medium enterprises (SMEs) who act as suppliers for the needs of the railroad industry, such as the train component industry, the steel industry, the machinery industry, the foundry industry as well as to SME players who partner with PT INKA (Persero).

Meanwhile, actors from the Bangladesh party include the Government of Bangladesh, the Bangladesh Railway Company and the Multinational Corporation, namely Biswas Construction.

b) The absence of hierarchy among issues (Multiple Issues). In this context, it appears that the issues that are prioritized by the two countries, namely Low Politics issues, are no longer High Politics issues. Indonesia and Bangladesh see the issue of trade as a major issue which is also important for the country. The trade in passenger railcars between Indonesia and Bangladesh, which was marked by a winning bid by Indonesia, is an example of a Low Politics issue. The issue of rail trade is very important for the two

countries for the sustainability of the economies of Indonesia and Bangladesh.

Military force is not used by governments toward other governments within the region, or on the issues, when complex interdependence prevails. In this case there is no link between the procurement of railroad cars by Bangladesh and the use of military force. The railroad cooperation that is connected between Bangladesh and Indonesia puts forward the cooperation in the economic sector.

*e. The Interdependence Relationship between Indonesia and Bangladesh Encourages Economic Integration in the IB-PTA 2018 Forum*

The interdependence relationship between Indonesia and Bangladesh began with cooperation in the railroad sector in 2005, when PT INKA (Persero) won a train tender held by the Bangladesh Railway Company, which then continued in the 2014 and 2017 train tenders. The continuity of the two countries creates mutual dependence on one another. The interdependence between Indonesia and Bangladesh on the rail trade has had a stronger impact than trade in other commodities such as palm oil and coal that have previously existed. This is because Bangladesh really needs Indonesian trains because Indonesian-made trains have the advantage of being better quality than trains made by competitors. Meanwhile, Indonesia also needs Bangladesh for rail exports and market expansion to non-traditional countries. This mutual dependence has prompted the two countries to form economic integration under the IB-PTA forum in 2018, right after Indonesia received the Bangladesh train tender in 2017. The mutual dependence of the two countries on the rail trade is a strong reason for forming economic integration.

Indonesia and Bangladesh agreed to integrate their economies by forming the Indonesia Bangladesh Preferential Trade Agreement (IB-PTA) to remove trade barriers between them, given that the export value of the two countries is increasing from year to year, especially with the interdependence relationship in the field railways that make export-import activities between the two countries even higher. The formation of the Indonesia Bangladesh Preferential Trade Agreement (IB-PTA) was based on the high export-import taxes between the two countries which have been an obstacle to their economic cooperation so far. The long and complicated bureaucracy was also in the spotlight of the two countries, so they decided to remove these obstacles in the form of the Indonesia Bangladesh Preferential Trade Agreement (IB-PTA). This is in accordance with the Bela Balassa theory which defines economic integration as an effort or steps to eliminate differentiation of treatment between different state-owned economic units and is considered a condition, because it can be represented in the absence of various forms of discrimination between national economies.

This IB-PTA makes trade between Indonesia and Bangladesh more effective because free trade is carried out bilaterally. Bilateral free trade can open up wider export opportunities and make it easier to discuss negotiations, take into account impacts and management. The export and import commodities of the two countries will also experience a reduction in tariffs.

Trade is an important factor in achieving the interests of the state. The impact of economic integration will create prosperity and improve the economies of Indonesia and Bangladesh because economic integration will remove trade barriers and lower tariffs for goods and services. This was proven by the second IB-PTA Trade

Negotiation Committee (TNC) meeting, Indonesia and Bangladesh began agreeing on a list of product requests and offers for tariff reduction. This tariff reduction will benefit both parties.

#### IV. Conclusion

Cooperation in the rail sector between Indonesia and Bangladesh has a significant impact on the formation of a Preferential Trade Agreement (PTA) because this cooperation creates interdependence between the two countries. There is a sense of interdependence between the two of them which in turn leads to economic integration.

The interdependence between Indonesia and Bangladesh is in accordance with 3 characteristics of interdependence, namely, the interaction between actors from the two countries, both state and non-state actors, the issues used are Low Politics, namely trade issues, and the absence of military use by Indonesia and Bangladesh because they are focused on economic cooperation. This interdependence can ultimately achieve the interests of each country. Indonesia can increase export value and expand its market to non-traditional countries, while Bangladesh can develop connectivity between cities and meet domestic rail needs.

Furthermore, the interdependence between Indonesia and Bangladesh in the railway sector encourages the formation of economic integration in the form of a Preferential Trade Agreement (PTA). A special trade agreement or PTA is said to be an economic integration because it requires the elimination of trade barriers in the form of tariffs. Through the IB-PTA, Indonesia and Bangladesh agreed to reduce trade rates between the two countries, both for trains and other commodities, so that it would make

trade easier and more profitable for the two countries.

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