

ERIA Discussion Paper Series**No. 467****RCEP and Indonesia: Economic Reform and Prospects for Implementation**Yose R. DAMURI^{#§}*Department of Economics, Centre for Strategic and International Studies,
Indonesia*

Deni FRIAWAN

*Department of Economics, Centre for Strategic and International Studies,
Indonesia*

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Abstract: *The conclusion of the Regional Comprehensive Economic Partnership (RCEP) is very important for Indonesia as it may bring many benefits to the country. This paper is an attempt to see the role of domestic political-economy dynamics in facilitating and constraining Indonesia's decision to join, ratify, and implement a free trade agreement (FTA). It also seeks some understanding on whether an FTA can bring significant market liberalisation. This paper focuses on two areas of observation. First, it discusses the current progress of the legislative process and public acceptance of the RCEP agreement in Indonesia and how the process is influenced by the political-economy dynamics of the country. Second, the paper also looks at the potential impacts of the agreement on Indonesia's current reform agenda, especially the recently passed Jobs Creation Law (Law No. 11/2020). For these observations, we conduct a content analysis on RCEP-related news published in two newspapers in Indonesia, namely Kompas and the Jakarta Post. In addition to content analysis, we also conducted interviews with stakeholders, including parliament members and government officials from the Ministry of Trade who have been actively involved in RCEP negotiations and the ratification process. The paper provides some remarks and recommendations for the future agenda of RCEP ratification and implementation in Indonesia.*

Keywords: RCEP ratification process, economic reform, domestic political-economy dynamics, content analysis

JEL Classification: F13, F15, D72

[#]Corresponding author. Kazunobu Hayakawa, address: Economic Integration Studies Group, Inter-Disciplinary Studies Center, Institute of Developing Economies, 3-2-2 Wakaba, Mihama-ku, Chiba-shi, Chiba 261-8545 Japan. Phone: 81-43-299-9754; Fax: 81-43-299-9763. E-mail: kazunobu_hayakawa@ide.go.jp

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1. Introduction

Indonesia has played a significant role in the negotiations of the Regional Comprehensive Economic Partnership (RCEP). The RCEP initiative was first initiated by Indonesia in 2011 when the country was the chair of the Association of Southeast Asian Nations (ASEAN). At that time, Indonesia successfully encouraged the other ASEAN members to arrange a mega free trade agreement (FTA) that would involve all their FTA partners (China, Japan, the Republic of Korea, India, Australia, and New Zealand) in a regional comprehensive economic partnership called RCEP. The RCEP negotiations started in 2013 and Indonesia was appointed by the 15 other members as the chair of the RCEP Negotiating Committee and by 10 ASEAN Member States as the ASEAN Coordinator. After almost eight years of intensive negotiations, on 15 November 2020, the RCEP negotiations finally reached their final agreements, and RCEP was signed by only 15 countries, as India had already withdrawn in 2019.

The conclusion of the RCEP trade deal is in Indonesia's interest as it may bring many benefits to the country. By being actively involved in the trade deal, Indonesia can tap into one of the largest trading blocs in history, which covers a third of the global economy and population. RCEP can help the country to further improve its trade relations with other RCEP members and increase its participation in the global value chain, as it can help minimise potential "noodle bowl" effects amongst its members through common sets of rules of origins that reduce complications in doing trade. Moreover, Indonesia may even attain greater gains from other members' engagement in other trade deals. Aprialianti (2019), for example, shows that Indonesia's trade is estimated to increase by more than 7% due to the spillover effects generated by the country's increased involvement in the regional and global supply chains. Furthermore, the study found that a 1% tariff reduction by RCEP members will increase Indonesia's trade by more than 2% on average, controlling for other factors.

In addition to tariff eliminations, RCEP may also complement Indonesia's ongoing reform agenda, especially reforms that have been brought about by the recently passed Omnibus Law (also known as the Job Creation Law). To increase trade activities and encourage foreign direct investment flows into Indonesia, the country needs to undertake structural adjustments covering improvements in the business climate, the creation of a more flexible labour market, and the formulation of more open trade and

investment policies. In this regard, RCEP is expected to help Indonesia improve economic regulations and policies that can enhance the country's competitiveness in international markets. In the context of the Job Creation Law, on one hand, the RCEP agreement may help to create a better business climate in Indonesia through the formulation of better technical regulations (Government Regulations (PP) and Ministerial Regulations (Peraturan Menteri (Permen))). On the other hand, the benefits from RCEP may also be optimised by this reform agenda.

The realisation of RCEP's benefits above, however, depends on Indonesia's capability to successfully ratify the agreement and bring it in line with the domestic economic reforms. Despite Indonesia's active involvement in many regional and bilateral FTAs, the country actually remains cautious with regard to greater economic openness and the proliferation of FTAs. The negotiation and implementation of FTAs have been accompanied by mounting worries in Indonesia concerning the potential negative effects on output and employment and the risk of turning the country into a supplier of solely primary products. This fear became more apparent since the ASEAN-China Free Trade Agreement (AC-FTA) was fully affected on 1 January 2010. Meanwhile, there has also been a growing trend towards protectionism in Indonesia. Real exchange rate appreciation, anti-foreign attitude, the rise of China as a competitor in the global supply chain, and the populist tendency of President Jokowi have all linked up to drive Indonesia towards greater protectionism (Patunru and Rahardja, 2015).

Damuri (2017) also observes a similar tendency, although the forms of protection are more subtle than in the past, by using non-tariff measures as trade barriers. A less supportive attitude towards greater openness might come from political economy dynamics in the country. Damuri and Pangestu (2018) analysed a survey of 1,600 respondents across Indonesia to look at public perception of international economic policy in Indonesia. They found that more restrictive and inward-looking policy might be in line with the aspirations of the public. Politicians and policymakers may gain additional political support by behaving according to general public opinion, in particular on trade and investment policy. It can be argued that Indonesia's appetite for FTAs may not bring about meaningful reform, particularly regarding making the economy more open.

Against the backdrop described above, this paper is an attempt to see the role of domestic political-economy dynamics in facilitating and constraining Indonesia's

decision to join, ratify, and implement an FTA. It also seeks some understanding on whether an FTA can bring significant market liberalisation. Understanding stakeholders' attitudes toward trade agreements and the political struggles in the process of ratification is a critical but often neglected issue in the literature on FTAs, which commonly emphasises the economic effects of FTA proliferation. Yet, the political struggle of interest groups and their opinions powerfully limit policymakers' policy options, as can be seen in the extent of the economic reforms that an agreement can bring.

This paper focuses on two areas of observation. First, it discusses the progress of the legislative process and public acceptance of the RCEP agreement in Indonesia and how the process is influenced by the political-economy dynamics of the country. To get a sense of the process, we conduct a content analysis on RCEP-related news published in two newspapers in Indonesia, namely Kompas and the Jakarta Post. These two newspapers are chosen as they are two of the most influential newspapers in the country and are the only newspapers that provide access to database services for news that has been published in the past, ranging from February 2019 to October 2021. Compared to a public opinion survey, this newspaper content analysis might not be ideal and may be biased in capturing the public perception of the RCEP agreement in Indonesia, as it usually only reports the views of the elite. This content analysis was used due to time and resource constraints. In addition to content analysis, we also conducted interviews with stakeholders, including parliament members and government officials from the Ministry of Trade who have been actively involved in RCEP negotiations and the ratification process. Second, the paper also looks at the potential impact of this agreement on Indonesia's current reform agenda, especially the recently passed Jobs Creation Law (Law No. 11/2020). Similarly, the paper also discusses how the current reform agenda has the potential to elevate the benefits from RCEP. We investigate some aspects that might strengthen the other's processes, whilst we also examine potential areas that might be conflicting.

The rest of this paper is structured as follows. The following section briefly discusses the related literature on FTA formation and its effect on domestic economic reforms. This is then followed by a discussion on Indonesia's recent economic relations with RCEP countries. The ongoing legislative process and public acceptance of the RCEP agreement are examined further after that, followed by a discussion on the RCEP

commitments and their relation to Indonesia's reform agenda. The paper concludes with some remarks and recommendations for the future agenda of RCEP ratification and implementation in Indonesia.

2. Literature Review: FTAs and Domestic Economic Reforms

Theoretically, the question of who drives the integration—societal or state actors—has ever been a debatable issue in the literature on regional integration. Neofunctionalism underscores the important role of subnational and supranational actors, whilst intergovernmentalism emphasises the essential part of governments and the preferences of national leaders in driving the integration process. Due to the flaw of focusing on only one particular actor, the neofunctionalism-intergovernmentalism debate has not been of interest in the literature recently, and the focus of domestic politics of regional integration has now shifted to the interaction between private sector groups and political actors in explaining policy outcomes.

This approach is known as the supply and demand model of regional integration. Baldwin (1993), for example, explains that the proliferation of FTAs is caused by the 'domino effect', in which the private sector defensively engages lobbying activities for FTA negotiation in order to lessen the trade and investment diversion from newly formed trading blocs, and the campaigns are supported by the politicians who bid for seeking membership in existing blocs or create their own integration arrangements if they are refused. Meanwhile, Grossman and Helpman (1995) emphasise the role of the political marketplace in determining the quality of workable FTAs and posit that the politician should protect most sectors to gather support for FTAs. They argue that the survival probability of trade diverting integration agreements from the political process will increase if, on one hand, the exporters who are protected by rigid rules of origin and high external tariffs tend to aggressively lobby for an agreement that can assure them access to regional markets with higher prices, whilst, on the other hand, the import-competing industries are 'bought out' with a guarantee for sectoral protection so that they will not oppose the campaign for FTAs.

Furthermore, Mattli (1999) proposes an influential theory consolidating supply and demand factors to analyse the outcomes of regional integration agreements. He assumes that an increase in intra-regional trade and investment flows will encourage businesses to demand regional integration in order to reduce uncertainty and transaction

costs, and politicians will accommodate such inquiries to increase their electoral prospects, especially if there is a wide performance gap between the members and non-members of the FTAs. He, furthermore, explains that whilst the state leadership occupies an important place in his model, the regional power plays a central point in the process of convergence, and providing compensation for the side effects is critical to a favourable result for the integration project. Supranational organisations may also be useful in supervising the compliance of integration commitments and rules.

Addressing some shortcomings in the existing supply and demand models of regional integration to explain Japan's FTA bargaining behaviour, meanwhile, Solis (2010) develops a domestic political economy model by proposing two ways of modification. First, she makes an explicit assumption on how the game of preferential trading, consisting of the selective options over partners, sectors, and issues, influences the incentives of private participants in support for or against negotiations. Second, she emphasises the effect of centralised policy-making arrangements on trade negotiation models through the logic of principal-agent relationships. Subsequently, she argues that Japan's capability to negotiate high-profile FTAs involving large trading partners and comprising meaningful market access concession and various WTO-plus commitments will depend on two factors: the intensity of multinational enterprises in lobbying for reducing the refusal of uncompetitive sectors and the concentration of domestic politics in order to stop the protectionist tendency of traditional subgovernments. These supply and demand models could be applied in the analysis of Indonesia's participation in the RCEP negotiations and its following ratification process.

Meanwhile, the country's economic reform has been one of the most controversial political decisions possible for the country's political leaders. Although often driven by economists and technocrats, reforms often fail to find political stakeholders who can press them. Reforms are also hard to be advocated as they tend to be controversial (with clear losers), even if the economic benefits in terms of increasing competitiveness are clear. Moreover, as explained by Milner and Kubota (2005), reforms require disassembling the (re)distribution and discrimination structures that have been deep-rooted in society, often complicating the long-term reforms to be accomplished. There are also those with vested interests who have received benefits from the status quo and have a strong incentive to prevent the reform proposals in order to keep their privileged positions.

FTAs can help governments overcome those obstacles. In this regard, as explained by Halverson (2004), this kind of international institution can act as both ‘a lever of force for reforms’ and ‘a tool to lock in the economic reform’. FTAs can lock in domestic economic reform by providing the rigour of a formal accord and allowing credible policy commitments. By signing an FTA, it becomes much more costly for a country to break its commitments, as such decisions will not only affect the domestic economy but also violate its international obligations. As it is reputationally costly for a government to violate its commitments, and other countries may also react to the violation by economically retaliating, the chance of successfully completing the domestic economic reform agenda would also increase. In addition, an FTA may also promote domestic economic reform by allowing the reformist groups in the government to gain domestic support. By joining FTAs, which require domestic reforms, domestic (vested) interests that look for gains from the FTA will support the economic reform, as failure to reform would imply losing the benefits of the FTA. Meanwhile, engaging in the FTA will allow policymakers to compensate and suppress domestic losers or sometimes even neglect domestic (vested) interests.

3. Indonesia’s Economic Relations with RCEP Countries

RCEP member countries play a significant role in Indonesia’s trade. Table 1 shows the value of Indonesia’s trade relations with other RCEP member countries. It reveals that the RCEP trading bloc is the largest Indonesia trading partner, accounting for more than 60% of Indonesia’s total trade in 2019. Amongst the country’s top 11 trading partners, only the United States and India are not RCEP members. Amongst the RCEP member countries, China is Indonesia’s biggest trading partner, accounting for almost 39% of the country’s total trade with the preferential trading bloc. Moreover, Indonesia’s total trade with other RCEP countries increased from US\$168 billion in 2016 to US\$227 billion in 2018, before declining back to US\$183 billion due to the COVID-19 pandemic. During the same period, Indonesia always experienced a trade deficit, and the deficit increased from US\$13.7 billion in 2016 to US\$23.8 billion in 2018, before decreasing to US\$0.96 billion in 2020, driven by a huge trade surplus with ASEAN countries and a lower trade deficit with China.

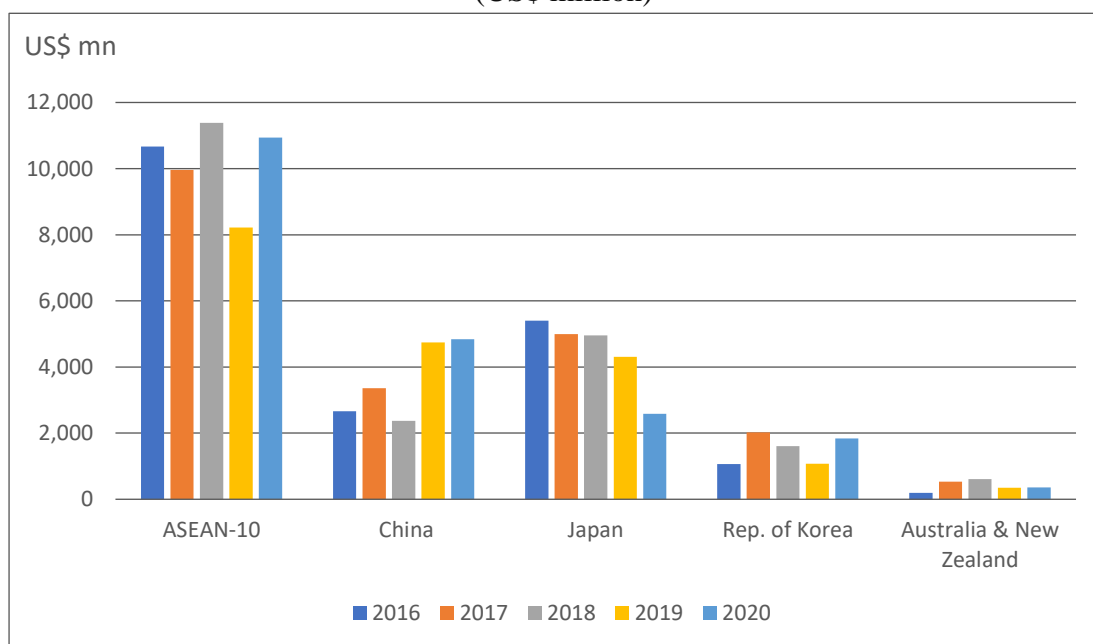
Table 1: Indonesia's Trade Relations with Other RCEP Countries, 2016–2020
(US\$ million)

Country	2016			2017			2018			2019			2020		
	Export	Import	Trade Balance	Export	Import	Trade Balance	Export	Import	Trade Balance	Export	Import	Trade Balance	Export	Import	Trade Balance
ASEAN	33,830	34,697	-867	39,266	39,345	-79	41,913	45,979	-4,066	41,465	39,791	1,673	36,503	29,833	6,670
Malaysia	7,122	7,201	-79	8,441	8,858	-417	9,272	8,603	669	8,802	7,775	1,027	8,131	6,933	1,198
Thailand	5,394	8,667	-3,273	6,474	9,282	-2,808	6,821	10,953	-4,132	6,218	9,469	-3,251	5,113	6,484	-1,371
Philippines	5,271	822	4,449	6,630	859	5,770	6,832	958	5,874	6,770	822	5,948	5,899	592	5,307
Singapore	11,861	14,548	-2,687	12,725	16,889	-4,164	12,915	21,440	-8,525	12,917	17,590	-4,673	10,712	12,341	-1,629
Brunei Darussalam	89	88	1	65	43	22	61	20	41	103	31	73	129	75	54
Viet Nam	3,046	3,228	-183	3,587	3,229	358	4,582	3,795	787	5,153	3,848	1,305	4,941	3,131	1,810
Myanmar	616	113	502	828	146	682	898	152	746	876	183	693	1,032	187	845
Lao PDR	6	4	2	4	12	-8	7	26	-18	7	31	-24	5	42	-37
Cambodia	427	25	402	514	28	486	526	33	493	619	43	576	541	47	494
Japan	16,099	12,985	3,114	17,799	15,240	2,559	19,466	17,977	1,489	16,003	15,662	342	13,663	10,672	2,991
Rep. of Korea	7,009	6,675	334	8,200	8,122	78	9,540	9,089	451	7,234	8,421	-1,187	6,507	6,849	-343
China	16,791	30,801	-14,010	23,083	35,767	-12,684	27,132	45,538	-18,406	27,962	44,931	-16,969	31,776	39,635	-7,859
Australia	3,209	5,261	-2,052	2,524	6,009	-3,485	2,820	5,826	-3,006	2,329	5,515	-3,187	2,506	4,647	-2,140
New Zealand	367	661	-294	437	751	-314	491	809	-318	448	764	-316	480	757	-277
World	145,186	135,653	9,533	168,828	156,986	11,843	180,013	188,711	-8,699	167,683	171,276	-3,593	163,192	141,569	21,623

Source: CEIC Database (accessed 22 July 2021).

FDI from RCEP countries has also considerably contributed to investment in Indonesia. Figure 1 shows the FDI realisation in Indonesia by RCEP countries from 2015 to 2020. During that period, FDI realisation from RCEP member countries in Indonesia was on average around US\$20 billion, accounting for around 88% of total FDI realisation in the country. More than half of the total FDI realisation in Indonesia in 2020 originated from ASEAN countries, and nearly 25% was from China. During 2016–2020, FDI coming from China tended to increase, whilst that from Japan tended to decline. Meanwhile, FDI from the Rep. of Korea (henceforth, Korea) bounced back significantly in 2020 after declining continuously from 2017 to 2019. Noteworthy, moreover, there has been a shift in the sectoral composition of FDI originating from RCEP countries in Indonesia, from the secondary sector to the tertiary sector. RCEP’s FDI in the manufacturing sector decreased from around US\$12.9 billion in 2016 to US\$9.2 billion in 2020, whereas in the same period, that of the service sector increased from US\$5.2 billion to US\$9.36 billion.

Figure 1: FDI Realisation in Indonesia by RCEP Country, 2016–2020
(US\$ million)



Source: NSWI, BKPM (accessed 22 July 2021).

4. Legislation Process and Public Acceptance

In this section, we discuss the current progress of the legislative process and public acceptance of the RCEP agreement in Indonesia. We analyse the influence of domestic politics in the current political and administrative process of the ratification of the RCEP agreement.

Like other FTAs in the region, RCEP was formed by the governments in the region in response to businesses, especially MNCs, who demand regional integration in order to reduce uncertainty and transaction costs, amid an increase in intra-regional trade and investment flows in the region. The RCEP initiative was firstly introduced by Indonesia when the country was the chair of ASEAN, and it came as a response to pressure coming from some FTA partners of ASEAN, especially China and Japan. Like ASEAN, these partners also aspired for ASEAN to form an FTA comprising all or some of the ASEAN FTAs partners. For example, China would like ASEAN to develop an FTA only with ASEAN's FTA partners, namely China, Japan, and Korea, whilst Japan proposed ASEAN set up an FTA involving all its FTA partners, i.e. China, Japan, and Korea.

During the length RCEP negotiation process, ASEAN, as a supranational organisation, has played a central role in the process of unification and in accommodating each country's different interests based on their different stages of economic development. Together with other regional power in the region (such as China and Japan), ASEAN has successfully facilitated and considered the numerous challenges faced by all the RCEP participating countries by including some flexibility and exceptions in the final agreement. The signing of RCEP has asserted ASEAN's position in defining the countries' relations in Asia-Pacific. Some analysts suggest that RCEP exhibits a triumph for ASEAN's middle-power diplomacy, easing tensions and rivalry amongst great powers in the region. Petri and Plummer (2020), for example, argue that RCEP might never have been initiated without such 'ASEAN centrality'.

In addition, the pre-existing FTA relations between ASEAN countries and their five FTA partners have also provided the foundation for the establishment of RCEP. The FTA relations between each FTA partner, such as ASEAN and Japan or ASEAN and China, have been used as a reference during the RCEP negotiations. These pre-existing FTAs have helped the participating RCEP countries in setting the integration commitments and rules, although this does not mean that achieving a consensus for the RCEP FTA was easy. For Indonesia and some other ASEAN members, giving the same

commitments to all participating countries has created a great challenge, given the diversity in the level of sensitivity towards each of the FTA partners. The signing of RCEP has demonstrated that ASEAN countries can reach a consensus on designing economic cooperation with a partner that has previously cooperated by using bilateral channels, such as Australia, New Zealand, and other East Asian countries that have been linked under the ASEAN+6 platform.

Indonesia's involvement in RCEP has been mainly driven by the Government of Indonesia. The country successfully introduced the RCEP concept during its chairmanship of ASEAN in 2011. Afterwards, through its position as the chair of the RCEP Negotiating Committee and ASEAN Coordinator, the Indonesian government used its regional hegemony to act as an effective focal point in the convergence process for the success of the RCEP integration project. Meanwhile, at the domestic level, the centralisation policymaking under President Jokowi—including consolidated political authority in the executive and legislative branches—has provided a conducive environment to support the country's active involvement in various FTAs, including RCEP. RCEP has been initiated through top-down decisions dictated by high-level government-to-government initiatives.

This central role of the Indonesian government in RCEP cooperation has been recorded in the news. Table 2 shows a summary of Indonesian stakeholders' sentiments on RCEP-related issues that were published in Kompas and the Jakarta Post during 2019–2021. From 126 news items, features, and articles, there are about 209 statements, comments, or arguments delivered from stakeholders. The majority (88%) of the statements and arguments tended to have positive sentiments, compared to only 12% for negative ones. On the positive side, RCEP's potential to become one of the largest trading groups in the world and its positive effects on economic growth in Indonesia and the region were the most frequent positive sentiments published in the newspapers, accounting for almost 17% and 16% of positive sentiments, respectively. Meanwhile, the most frequent negative sentiments published in the newspapers were concerns over the possibility of RCEP allowing the entry of cheap goods and an increase of competition for Indonesian products (24%) and the potential implication that RCEP might replace local food production (20%).

Moreover, government officials have been the most active actors in voicing their views on RCEP issues, accounting for nearly 50% of the opinion makers in our

observations. Their statements or arguments were related to the motivation for Indonesia’s involvement in RCEP, including the benefits and positive impacts of integration. As shown in Figure 2, more than 88% of the government’s opinions on RCEP were positive. The same number of positive sentiments on RCEP-related issues were also voiced by businesses, although these only accounted for 7% of the opinion makers. Meanwhile, journalists/reporters and academia/scholars, respectively, represented about 16% and 18% of opinions and tended to be more balanced, mentioning both the positive and negative aspects of RCEP for Indonesia. This configuration of opinion makers and their sentiments related to RCEP issues have once again shown that the Indonesian government has played a central role in the country’s involvement in RCEP as well as promoting it to the public. The stakeholders’ sentiments on RCEP also reveal that the majority of them support Indonesia’s involvement in the agreement.

Table 2: Stakeholders’ Sentiments on RCEP-related Issues, 2019–2021

Positive Sentiments			Negative Sentiments		
Sentiment	Freq.	%	Sentiment	Freq.	%
RCEP will become the largest trading group in the world in terms of the number and value of trades.	31	16.8	RCEP can allow the entry of cheap goods and increase competition for Indonesian products.	6	24.0
RCEP can boost economic growth in Indonesia and the region.	29	15.8	RCEP could displace local food production.	5	20.0
RCEP can support Indonesia’s economic recovery after COVID-19.	16	8.7	RCEP can enlarge Indonesia’s trade deficit, especially with China.	3	12.0
RCEP can improve market access, trade facilities, and cooperation.	13	7.1	RCEP can lead to ‘data colonisation’ (no guarantee of data security, especially public data).	2	8.0

RCEP can promote regional peace and stability in Asia.	11	6.0	RCEP can cause job losses.	1	4.0
RCEP can maintain ASEAN centrality for Indonesia and other ASEAN countries as it focuses on 'Indo-Pacific' cooperation.	11	6.0	RCEP negotiations go against or do not meet the criteria for transparency, public participation, and good governance.	1	4.0
RCEP can strengthen or encourage Indonesia's involvement in the regional and global supply chains.	9	4.9	RCEP can limit the government's ability to regulate businesses according to the public interest (reducing government/state sovereignty).	1	4.0
RCEP is proof of the success of Indonesia's leadership in the international trade arena because it was born from Indonesia's idea, and the negotiation process was led by Indonesia.	9	4.9	RCEP will increase the privatisation and corporatisation of public services, limiting access of the poor to public services.	1	4.0
RCEP can help to improve the investment and business climate in Indonesia.	8	4.3	RCEP will place community and workers' rights lower than company profits.	1	4.0
RCEP can boost Indonesian exports.	7	3.8	RCEP will give excessive power to companies, resulting in human rights violations.	1	4.0
RCEP can help to encourage structural adjustment/reform in Indonesia so as to increase the competitiveness of the national economy.	7	3.8	RCEP can exaggerate environmental damage in Indonesia.	1	4.0
RCEP can expand Indonesia's relations with each of the	7	3.8	RCEP can make economic and health	1	4.0

individual countries involved in the agreement.			crisis management more difficult.		
RCEP can facilitate and encourage the investment and business of multinational companies in Indonesia.	6	3.3	RCEP may exacerbate foreign exploitation in Indonesia, including land and land tenure.	1	4.0
RCEP can ease the tensions in the trade war between China and the United States as well as the trend of global protectionism.	6	3.3			
RCEP can help Indonesian MSMEs to expand and engage in international trade.	5	2.7			
RCEP can help provide cheap and quality inputs/raw materials for Indonesia, or Indonesia can provide raw materials to RCEP countries.	2	1.1			
RCEP can help Indonesia to respond to global consumer trends.	2	1.1			
RCEP can provide protection for investors, especially multinational corporations.	2	1.1			
RCEP can restore confidence in the international trading system and compliance with the rules.	2	1.1			

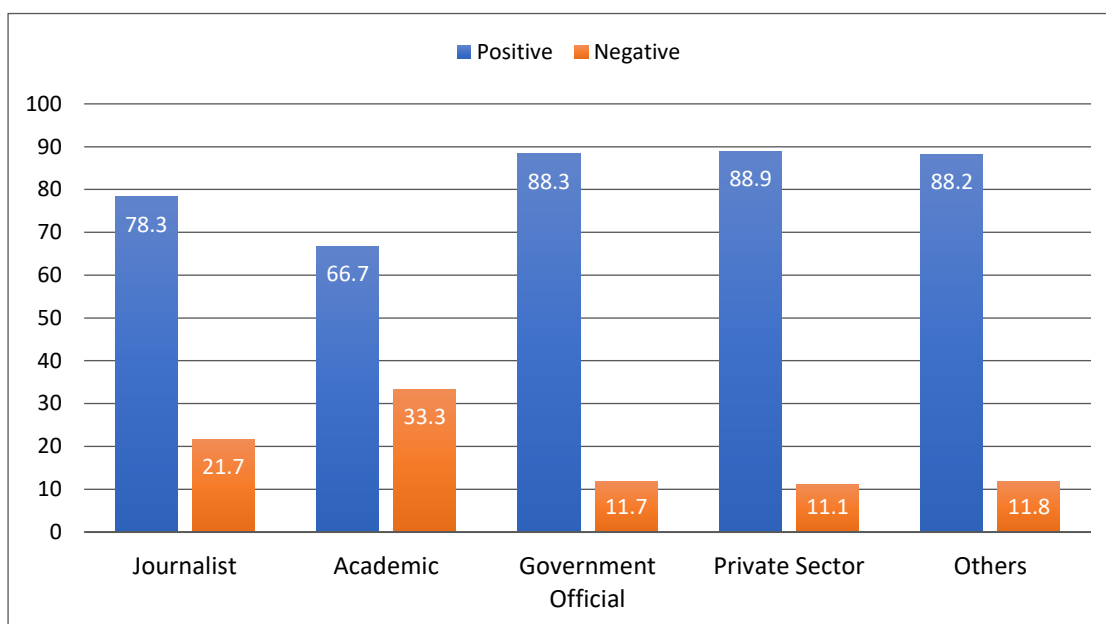
RCEP can help to ease the flow of goods and services to and from Indonesia.	1	0.5			
	184	100		25	100

Source: Processed by authors from news, features, and articles published in *Kompas* and *The Jakarta Post* newspapers.

The high proportion of positive sentiments on RCEP-related issues is a bit surprising. Using the same method of content analysis, Damuri and Pangestu (2018) showed that opinions related to economic openness and globalisation in two influential newspapers (*Kompas* and *Jakarta Post*) and one business newspaper (*Bisnis Indonesia*), tended to be less positive, with 33% of opinions collected indicating negative sentiments.

This may be for several reasons. First, like many other similar international cooperation issues, RCEP is a specific government programme that generally does not attract or is given attention by the general public. As a result, the voices that emerge are largely coming from the promoters or supporters of RCEP. Second, due to a lack of capacity, most of the Indonesian public tends to be passive towards RCEP or other international economic cooperation involving Indonesia. Their response to Indonesia's involvement in economic cooperation tends to be reactive, and this usually occurs only after the agreement has been implemented, causing severe negative effects for them. The majority of Indonesian people, especially in the private sector, tend to be inward-looking, given Indonesia's sizeable domestic market. Third, RCEP is basically not a totally new trade cooperation agreement for Indonesia. Trade activities between Indonesia and other RCEP members have been going on for a long time, and there have already been many existing bilateral and multilateral trade agreements involving Indonesia and its RCEP partners, such as the Indonesia-Japan Economic Partnership Agreement and the ASEAN-China Free Trade Agreement (AC-FTA).

Figure 2: Stakeholders' Sentiments on RCEP-related Issues According to Their Profession, 2019–2021



Source: Processed by authors from news, features, and articles published in *Kompas* and *The Jakarta Post* newspapers.

Nevertheless, this does not mean that the ratification of the RCEP agreement is not free from challenges. In fact, hitherto, Indonesia is the only country that has yet to ratify RCEP, although the agreement itself has been initially set to come into force by 1 January 2022. The delay in ratification was caused by long administrative and technical processes that needed to be passed. Administratively, the path of the RCEP ratification process is very long, as it needs to pass several stages that have become standard and good practices for the ratification of every trade agreement.

The 7-year negotiation process seems to have had little impact on the process of ratification. The fact that Indonesia had led the negotiations also seems to be irrelevant for seeking approval from stakeholders. For example, the government, especially the Ministry of Trade, has to conduct communications and consultations with the line ministries, business associations, and academia in order to get information and support for preparing the pre-ratification documents. The documents then need to be discussed in several working meetings in parliament in order to get approval and endorsement from the parliamentary commission overseeing trade rules and then are taken to a wider parliamentary vote for the final ratification. This lengthy process of consultation gives the impression that the process of ratification is separate from the negotiations, although

during the negotiations, consultation and communication with stakeholders have already taken place intensively.

Other challenges to RCEP ratification are more technical in nature, especially in the implementation phases of the agreement. There are also still technical problems between Indonesia and other RCEP partners. For example, the negotiations on the transposition process and the HS code rules take a long time as they not only deal with other RCEP partners but also need internal consultations with other line ministries and institutions. As a result, they will renew the negotiation process with the line ministries and institutions, since it must be determined whether Indonesia will keep its commitments, all or in part, along with a re-examination of the details of the products. All these are technical and take much time to be completed. In addition, the government needs to prepare and arrange some implementing regulations, such as finance ministry regulations on tariffs, finance ministry regulations on tariff prerequisites, and trade ministry regulations.

Overall, these administrative and technical processes take a long time as there are about 17–18 following stages that needed to be passed through for RCEP ratification and implementation after the parliamentary decision on the law for RCEP. In early 2022, more than one year after the signing, the Government of Indonesia expected that the overall ratification and implementation of RCEP processes would be completed in the next 6 months, whilst the ratification stages were to be completed within the following 3 months. After long and winding processes, the parliament finally accepted the RCEP ratification draft law on 30 August 2022 and the government expects it can be implemented by the end of 2022.

In addition to the administrative and technical challenges mentioned above, there are also concerns over the impact of RCEP on small and medium-sized enterprises (SMEs) and the Indonesian labour force. There are mounting worries regarding how domestic SMEs could compete with foreign companies after the RCEP implementation, and whether the foreign workers could work in Indonesia and destroy the country's labour market. Although this is not a big issue that would potentially hinder the RCEP ratification process, these issues always emerge and become a concern for many Indonesians whenever they discuss Indonesia's involvement in international economic partnerships and trade agreements. They want Indonesia to have an equal position with other RCEP partners so that they can also tap into the economic opportunities in foreign

markets. They have concerns over why it is hard for Indonesian businesses and workers to enter or operate in foreign markets or whether Indonesian standards and certifications for goods and workers are equally recognised or applied in foreign markets.

5. RCEP Commitments and Indonesia's Reform Agenda

In addition to the recent progress in the legislation process and public acceptance of the RCEP agreement in Indonesia as described above, it is also important to examine the potential impact of this agreement on Indonesia's current reform agenda, especially the recently passed Omnibus Law (or the Jobs Creation Law), Law No. 11/2020. This section discusses how the commitments in RCEP could complement Indonesia's current reform agenda and how the benefits from RCEP can be optimised by the reform agenda.

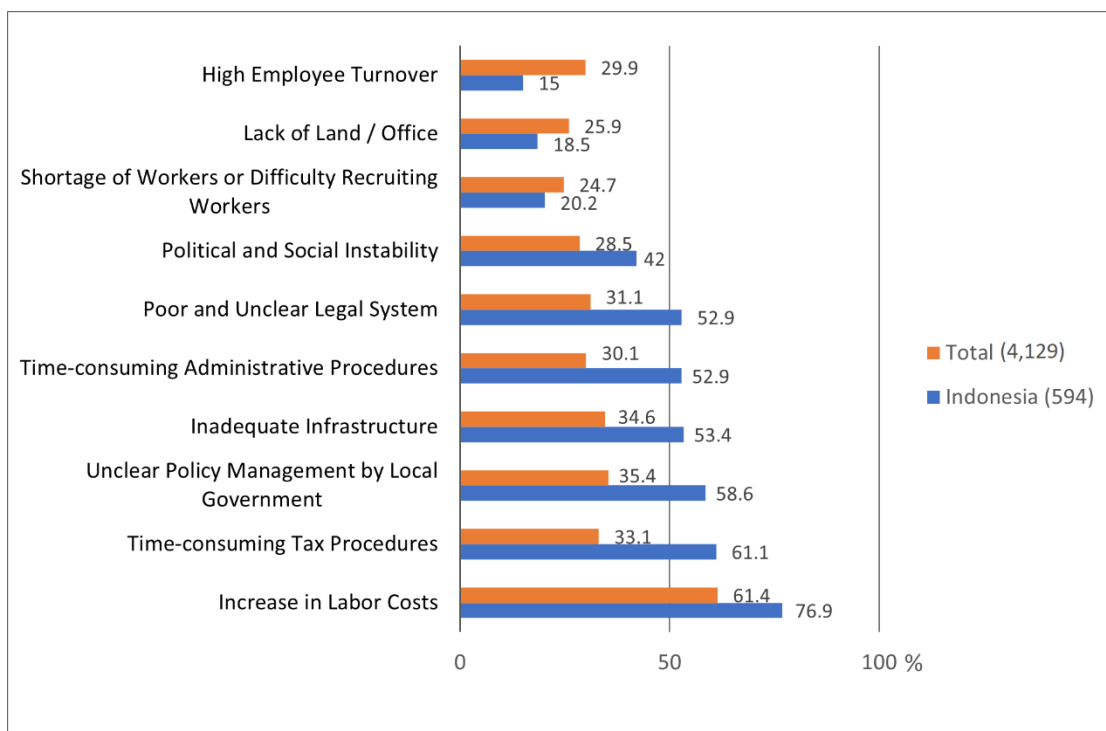
The RCEP agreements may bring many benefits for Indonesia. The existence of RCEP is expected to abolish the 'noodle bowl' effect caused by different rules of origin adopted by different FTAs in the region. This positive effect will mainly benefit countries that have actively participated in the regional and global supply chains. Unfortunately, however, Indonesia's benefits from RCEP are estimated relatively lower compared to China or Viet Nam, as its participation in the regional and global production networks has been declining due to the poor condition of its infrastructure, the relatively more restrictive trade and investment policies, and the low quality of its labour force. Indonesia needs to solve those problems in order to increase its participation in the regional and global value chains and received optimal benefits from RCEP. In this regard, the realisation of RCEP's benefits will not only depend on the country's capacity to completely ratify the agreement but also its capability to undertake significant economic reforms that can facilitate RCEP implementation. Indonesia needs to embark on structural adjustments in order to increase trade and attract FDI.

There has been promising development in Indonesia's economic reforms in recent years. Various packages of economic reform policies have been undertaken by the Indonesian government. During President Jokowi's administration, in order to attract more FDI inflows to Indonesia, the government has issued several economic policy packages that mainly focus on deregulation, strengthened law enforcement and business certainty, interest tax cuts for exporters, low electricity/energy prices for labour-intensive industries, tax incentives schemes for investment in special economic zones, and a lowered tax rate for property acquired by local real estate investment trusts.

Indonesia has also made some progress with regard to the quality of infrastructure. During the period 2014–2019, Indonesia’s public investment focused on extending the road network and completing more than 50 irrigation reservoirs, mostly in peripheral regions. As a result, as shown by the Global Competitiveness Reports, Indonesia’s ranking in terms of infrastructure improved from 102nd in 2007 to 72nd in 2019.

Despite this progress, Indonesia’s business environment is still behind other countries in the region as several problems remain that hinder the trade and investment activities in the country. The 2019 Ease of Doing Business index issued by the World Bank shows that Indonesia was in the 73rd position out of 190 countries in 2019, or down one rank compared to the previous year. Similarly, the 2019 Global Competitiveness Report from the World Economic Forum gives a score of 58 out of 100. The survey ranked Indonesia 51st in terms of institutions related to the business climate and 85th in terms of labour regulations. These low rankings indicate that the investment climate in Indonesia is still considered burdensome for business and economic activities. Uncertain and non-transparent regulations and policies, lack of infrastructure and technological capabilities, increased costs of credit, high levels of corruption and rampant illegal fees, lack of guarantee and protection of intellectual property rights, as well as lack of involvement in the global value chain are amongst the problems that have inhibited FDI inflows into Indonesia. These problems have been indicated, for example, in the Japan External Trade Organization Survey (JETRO, 2020) shown in Figure 3. The survey shows that wages, regulatory certainty, and taxation are the top three investment risks for supporting business activities in Indonesia.

Figure 3: Risks for the Investment Environment in Indonesia and Other Asian Countries According to Japanese Companies



Source: JETRO (2020).

Many of the problems may be expected to be solved by the latest economic reform initiatives taken by the Indonesian government in the form of the issuance of the 2020 Job Creation Law (Omnibus Law). This law aims to reform multiple laws and regulations in broad policy areas. It consists of 186 articles, amending 79 laws and eliminating thousands of regulations in 10 main areas, such as labour reforms, ease of doing business, investment, tax, and land procurements. Some main provisions include a reduction of the severance payment liability to a maximum of 19 months of salary from 32 months; simplification of business registration requirements to take into account the level of risk (in particular, only high-risk investments shall be subject to environmental impact studies); clarification of the respective role of local governments (i.e. provinces and municipalities) and central governments in the processing of investment permits; abolition of existing restrictions on foreign investment, except for a negative list comprising six sectors (narcotics, gambling, chemical weapons, ozone-depleting substances, coral extraction, and fishing activities for endangered species); amendment of provisions of the Income Tax Law, the VAT Law and the Law on General

Provisions and Guidelines on Tax; and the creation of a sovereign wealth fund, with a view to drawing on foreign entities as co-investors in infrastructure projects.

Those regulatory reforms brought about by the Job Creation Law, on one hand, are expected to improve Indonesia's competitiveness and investment, increasing its participation in regional and global value chains and optimising the potential benefits from RCEP for the country. RCEP can help the country to further improve its trade relations with other RCEP members and increase its participation in the global value chain. It can also help Indonesia to attract more FDI into the country. However, the concrete realisation of this agreement's benefits and the policy reforms brought by the Omnibus Law are conditional upon the enactment of implementation rules that fully respect the spirit of the Omnibus Law. There are still plenty of policy adjustments and implementation and technical regulations needed for the implementation of this law. Damuri (2020) suggests that the success of this Law in achieving the expectations depends on three things. First, the extent to which this law can be an entry point for the creation of a better business climate in Indonesia depends on further exposure at the level of technical regulations and below (Government Regulations (PP) and Ministerial Regulations). Second, the extent to which these regulatory reforms can send positive signals to investors and the business world, especially foreign and labour-intensive investors. Third, to what extent the ability of the Indonesian workforce can be increased to respond to the demand for skilled labour.

From the other perspective, on the other hand, the RCEP agreement can also play an important role in helping the Indonesian government to take more substantive and significant economic reforms. The existence of Indonesia's commitments to RCEP can be used to accelerate and force Indonesia's economic reform process. They can provide a rigorous and formal policy reform framework and allow credible policy reform agendas. RCEP facilitates the upgrading of the regulatory environment and business opportunities for all sectors. RCEP aims to promote mutual understanding between members about each other's standards, technical regulations, and conformity assessment procedures, and to improve information exchange and cooperation in this field. The agreement includes provisions that improve transparency in the development of technical barriers to trade measures and encourage greater regulatory cooperation and good regulatory practice. These provisions are expected to minimise the adverse effects of regulations on trade by making information on exporting requirements easily

available, reducing transaction costs for businesses, and institutionalising mechanisms for RCEP members to resolve specific trade issues, with the goal of reducing or eliminating unnecessary technical barriers to trade.

For example, Government Procurement Chapter in RCEP supports increased transparency and cooperation in the area regarding the procurement of goods and services by the government. RCEP is Indonesia's first treaty that includes rules regarding government procurement in a trade pact. The agreement has emphasised the important contribution of government procurement to regional economic integration, job creation, and economic growth. This chapter encourages transparency in procurement processes with a requirement that members publish laws and regulations on government procurements. In addition, RCEP includes a chapter on business competition, which will obligate the parties to maintain competition laws and regulations that prohibit anti-competition activities and ensure independent enforcement. It has also addressed consumer protection by requiring domestic laws and regulations by RCEP members to inhibit deceptive practices and false or misleading explanations in commerce, and increasing knowledge and access to consumer redress mechanisms. The agreement also guarantees that competition law is transparent and applied according to the right process. It also sets a mechanism for facilitating cooperation amongst members' competition authorities. All those agreements can provide a useful framework to help Indonesia avoid making harmful unilateral decisions and proceed with its economic reforms agendas, as stipulated in the 2020 Job Creation Law.

Meanwhile, it should also be noted that economic reform is easier when it is supported by relevant adjustment policies, and the RCEP agreement is expected to provide this. The adjustment policies at both the firm level and worker level are required to mitigate the adverse effects of structural changes in Indonesia caused by RCEP and other FTAs. Whilst it is necessary for Indonesia to conduct structural reforms to gain the benefits of FTAs, the country can also take advantage of technical assistance on structural adjustments provided by an FTA such as RCEP. The RCEP developed partners can be helpful in identifying adjustment policy needs and in financing the implementation of such policies. For example, with the existence of the Economic and Technical Cooperation chapter, RCEP is expected to help the development of the economic capacity and capability of SMEs in Indonesia. It is expected that the

implementation of the RCEP agreement can be effectively utilised due to the improvement in Indonesia's economic capacity and capabilities. Moreover, the Chapter on Small and Medium Enterprises, together with the Chapter on Economic and Technical Cooperation, can provide a framework for arranging empowerment programmes that can improve the ability of SMEs to participate and take advantage of the opportunities of the agreement.

6. Way Forward and Recommendations

The conclusion of RCEP is important for Indonesia as it may bring many benefits for the country. The agreement can assist the country in further improving its trade relations with other RCEP members (the largest trading bloc in the world) and increase its participation in the regional and global supply chains as it can help minimise potential noodle bowl effects amongst its members through common sets of rules of origins that reduce complications in doing trade. It can also facilitate Indonesia in attracting more FDI into the country. In addition to tariff elimination, the RCEP may also complement Indonesia's ongoing reform agenda, especially the reforms that have been brought by the recently passed Omnibus Law (also known as the Job Creation Law). However, the realisation of RCEP's benefits depends on Indonesia's capability to successfully ratify the agreement and complement it with significant economic reforms.

In this context, the commitments in RCEP can complement Indonesia's current reform agenda and the benefits from RCEP can be optimised by this reform agenda. On one hand, the regulatory reforms brought about by the Job Creation Law are expected to improve Indonesia's competitiveness and investment, increasing its participation in regional and global value chains and optimising the potential benefits for the country. In order to optimise the gains from RCEP from the abolishment of the noodle bowl effects, Indonesia needs to increase its participation in regional and global production networks. This can be achieved by economic reforms aiming to provide a better business climate and a more flexible labour market, as well as more open trade and investment policy.

On the other hand, the RCEP agreement can also play an important role in helping the Indonesian government to undertake more substantive and significant economic reforms. Indonesia's commitments in RCEP can be used to accelerate and force Indonesia's economic reform process and provide a rigorous and formal policy reform

framework, allowing for a credible policy reform agenda. For example, the Government Procurement Chapter in RCEP may encourage transparency in procurement processes. Meanwhile, RCEP's chapter on business competition can guarantee that competition law is transparent and applied according to the right process. Finally, the Chapter on Small and Medium Enterprises, together with the Chapter on Economic and Technical Cooperation, can provide a framework for arranging empowerment programmes that can improve the ability of SMEs to participate in and take advantage of the opportunities of the agreement and mitigate the adverse effects of structural changes caused by RCEP's implementation.

Looking ahead, the government of Indonesia needs to take some of the following actions in relation to the current RCEP ratification and implementation process and its economic reforms. First, Indonesia needs to continue and accelerate the implementation of the economic reforms that are currently underway in order to maximise the gains from RCEP. In this regard, the government should immediately finalise the revision of the Job Creation Law mandated by the constitutional court. It also needs to prepare the formation of its derivative rules and regulations fully in line with the spirit of the Omnibus Law and Indonesia's commitments in RCEP and other FTAs. Second, the government needs to improve coordination amongst its ministries and institutions, both at the central and regional levels, in order to gain wider support and accelerate the RCEP ratification and implementation processes and the ongoing economic reforms. Third, the government should intensify the dissemination and socialisation of RCEP to the public and provide mitigation policies to protect and empower local SMEs and workers in order to gain support from the general public. Fourth, the government should shorten and simplify the FTA ratification and implementation procedures.

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