



## **INDONESIA'S BENEFITS OF JOINING RCEP AGREEMENT<sup>1</sup>**

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### **Abstract**

The Regional Comprehensive Economic Partnership (RCEP) is one of the largest trade agreements in the region. According to the World Bank (WB), RCEP will add 209 billion USD in income per year to the region by 2030.<sup>2</sup> The RCEP agreement includes China, Japan, and South Korea, the largest economies in Asia, helping RCEP to shift the economic weight toward Asia, including 30% of GDP and 27% of global merchandise trade, more than 18% of service trade, and 19% of foreign direct investment (FDI) flows.<sup>3</sup> Indonesia is a country that has gained many benefits from signing free trade agreements with Korea and China, especially strengthening and promoting economic cooperation and trade liberalization in the Asia-Pacific region, which plays a major role in promoting world economic growth.

### **Keywords**

Regional Comprehensive Economic Partnership, Trade Agreements, Economic Weight

The Regional Comprehensive Economic Partnership (RCEP) is one of the largest trade agreements in the region. According to the World Bank (WB), RCEP will add 209 billion USD in income per year to the region by 2030.<sup>2</sup> The RCEP agreement includes China, Japan, and South Korea, the largest economies in Asia, helping RCEP to shift the economic weight toward Asia, including 30% of GDP and 27% of global merchandise trade, more than 18% of service trade, and 19% of foreign direct investment (FDI) flows.<sup>3</sup> Indonesia is a country that has gained many benefits from signing free trade agreements with Korea and China, especially strengthening and promoting economic cooperation and trade liberalization in the Asia-Pacific region, which plays a major role in promoting world economic growth.

### **1. The RCEP agreement has regional advantages.**

The world has experienced many economic and political fluctuations. In 2023, the Covid-19 pandemic was controlled, and supply chains were gradually restored. The world economy fell into difficulty, inflation in developed countries increased, leading to a lower global economic growth rate than in 2022. According to the International Monetary Fund (IMF), the world economic growth forecast in 2023 is 3.0%, lower than the 3.5% growth in 2022.<sup>4</sup> Therefore, the advantages of the RCEP Agreement become even more special.

<sup>1</sup> The journal article is a product of the grassroots science and technology task "Indonesia and Vietnam's participation in the Regional Comprehensive Economic Partnership Agreement"

<sup>2</sup> Khoi Nguyen (2022), RCEP era kicks off to boost cross-border trade prospects (googleusercontent.com)

<sup>3</sup> RCEP includes 10 ASEAN countries, 3 Northeast Asian countries (China, Japan, South Korea) and Oceania (Australia, New Zealand)

<sup>4</sup> IMF (October 2023), "World Economic Outlook: Navigating Global Divergences", <https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023>, accessed December 21, 2023.

With a large and diverse number of participating members and great development potential in the region, RCEP is expected to be an economic bridge between members by promoting trade and deeper integration into global supply chains.

The advantages of RCEP are seen by some of Asia's leading countries, including China, Japan, and South Korea. China's importance in the RCEP trade bloc makes RCEP stand out in global trade and investment in terms of the growth rate of large high-income trading blocs over the four years (2020-2024). The Chinese and Southeast Asian economies are reflected in the growth rate of trade. In 2022, China's total import and export volume with other RCEP member countries reached 12.95 trillion yuan (US\$1.8 trillion), up 7.5% year-on-year, accounting for 30.8% of China's total foreign trade. China's non-financial direct investment in other RCEP members amounted to US\$17.96 billion, up 18.9%, while their direct investment attracted a total of US\$23.53 billion, up 23.1%.<sup>5</sup> According to statistics from the General Administration of Customs of China, in 2023, ASEAN-China import and export turnover reached 1,560 billion yuan, an increase of 16.1% over the same period in 2022, accounting for 15.8% of China's total export turnover.<sup>6</sup> The positive growth in ASEAN-China trade turnover is due to the advantage of the Regional Comprehensive Economic Partnership (RCEP). Because thanks to RCEP, ASEAN and China continue to maintain the recovery momentum, the scale of ASEAN-China import and export accounts for 50.8% compared to the scale of import and export between China and its partners in RCEP.

In addition to the importance of some of Asia's leading countries, ASEAN cannot be ignored. ASEAN's huge market, with a total population of 685 million people and a GDP of about 3.6 trillion USD. More than 2/3 of the population in the region is of working age and the number of households has average and good income. Household income increases by about 5% per year in this decade (2020-2030). ASEAN's GDP increases by nearly 4.6% per year in the period (2020-2030). In addition, ASEAN's economic diversity is a further strategic advantage. The ASEAN region is a major manufacturing hub with diverse sectors such as agriculture, mining, consumer goods, heavy industry, technology services and semiconductors. In 2021, ASEAN accounted for 17% of consumer electronics, 12% of apparel and 9% of automotive products.<sup>7</sup>

These advantages will bring strong growth to ASEAN trade. ASEAN trade is expected to grow at an average of 3.5% to 5% through 2031, while global trade expansion is expected to grow at only 2.5% per year.<sup>8</sup> Therefore, the RCEP trade advantage is considered a driver of trade growth in the region and the world. In addition to trade, RCEP focuses on enhancing trade and investment among suppliers to reduce trade barriers and ensure improved market access for goods and services for businesses in the region, through economic cooperation among participating countries; Enhance transparency in trade and investment relations among participating countries, as well as facilitate the participation of small and medium enterprises in global and regional supply chains; and expand and deepen ASEAN's economic commitments with FTA partners. In particular, the RCEP Agreement allows small and medium enterprises to take advantage of the agreement and cope with challenges arising from globalization and trade liberalization. Small and medium-sized enterprises (including micro-enterprises) account for more than 90% of business establishments across all RCEP countries and play an important role in the endogenous development of their respective economies. At the same time, RCEP provides equitable regional economic policies that benefit both ASEAN and its FTA partners.

RCEP aims to eliminate at least 92% of import tariffs between signatory countries within 20 years (2020-2040)<sup>9</sup>. With trade facilitation provisions that go beyond the WTO trade agreement, the RCEP Agreement also establishes new rules to facilitate e-commerce, intellectual property rights, stronger regulations on trade in services and cross-border foreign investment. The RCEP Agreement also cuts

<sup>5</sup> WTO and International Trade Center Vietnam Chamber of Commerce and Industry

<sup>6</sup> WTO and International Trade Center Vietnam Chamber of Commerce and Industry

<sup>7</sup> Wei Chuan Lim, Michael McAdoo, Gloria Ong, Nabil Saadallah, Bonar Silalahi, Adrian Ow, Jonathan Kang, and Fiona Lee, "How ASEAN Can Use Its Trade Advantage to Power Ahead", <https://www.bcg.com/publications/2023/asean-free-trade-advantage-to-power-ahead>, accessed February 28, 2024

<sup>8</sup> Wei Chuan Lim, Michael McAdoo, Gloria Ong, Nabil Saadallah, Bonar Silalahi, Adrian Ow, Jonathan Kang, and Fiona Lee, "How ASEAN Can Use Its Trade Advantage to Power Ahead", <https://www.bcg.com/publications/2023/asean-free-trade-advantage-to-power-ahead>, accessed February 28, 2024

<sup>9</sup> Charmaine Ng: "Singapore among 15 countries to sign world's largest trade pact", The Straits Times, November 16, 2020

costs and time for traders to export goods to any of the signatory countries without having to meet separate country-specific requirements.

Indonesia is increasingly playing a role in strengthening economic and trade links with partners in free trade agreements, economic links play an important role in Indonesia's exports, according to Luhut Pandjaitan, Coordinating Minister for Maritime Affairs and Investment, Indonesia's export value could reach \$300 billion by 2024. Indonesia focuses on developing the downstream industrial goods industry, which is quickly becoming a key industry in Indonesia's total merchandise exports. For Indonesia, RCEP is important because of the participation of Japan and South Korea, contributing greatly to Indonesia's economic and trade growth.

Japan is Indonesia's third-largest trading partner and fourth-largest source of foreign investment by 2022. Bilateral trade is expected to total \$42 billion by 2022. South Korea is expected to be the seventh-largest investor in Indonesia by 2022, with bilateral trade reaching \$20 billion.<sup>10</sup>. Contribute to the fight against protectionism that is growing in the world.

Especially in the recent global economic crisis, the RCEP Agreement plays an important role in stabilizing the economies of member countries, promoting post-pandemic recovery and sustainable economic growth, contributing to enhancing peace, stability, harmony, development and prosperity in the region.

The RCEP agreements cover a wide range of areas such as tariff reduction, trade facilitation and opening up of services and investment, the importance of multilateralism and an open world economy. In 2023, China issued 19,834 certificates of origin worth US\$568 million under the RCEP agreement. The number of certificates issued to 3,434 enterprises, an increase of 12.41% compared to 2022, is expected to reduce tariffs on Chinese products by an additional US\$9 million for importing countries from the RCEP agreement.<sup>11</sup>

The RCEP agreement also includes commitments to promote e-commerce by protecting online consumers and protecting personal information, while also strengthening domestic regulatory frameworks including in the areas of transparency and cybersecurity. Small and medium-sized enterprises benefit from commitments to promote e-commerce as countries work together to raise awareness and understanding of e-commerce issues.

## **2. Benefits Indonesia gets from RCEP Agreement.**

Indonesia played an important role in the RCEP negotiations. The RCEP initiative was first proposed by Indonesia in 2011 when it was the chair of the Association of Southeast Asian Nations (ASEAN). In 2011, Indonesia encouraged ASEAN members to join the negotiations and expanded the membership to include China, Japan, South Korea, India, Australia and New Zealand. RCEP negotiations began in 2013, with Indonesia appointed as the chair of the RCEP Negotiating Committee by 15 other members and as the ASEAN Coordinator by 10 ASEAN member states. After nearly 8 years of intensive negotiations, in November 2020, the negotiations reached a final agreement and RCEP was signed by only 15 countries due to India's withdrawal in 2019. In August 2022, Indonesia signed the RCEP trade agreement. Joining RCEP is beneficial for Indonesia because RCEP brings many benefits. RCEP can help Indonesia further improve trade relations with other RCEP members and increase its participation in the global value chain. In addition, RCEP helps to mitigate potential "noodle bowl" effects among members through a common set of rules of origin that reduces the complexity of trade procedures. Moreover, Indonesia can gain even greater benefits from the participation of other members in trade agreements other trade. Indonesia's trade is estimated to increase by more than 7% due to increased participation in regional and global supply chains. Furthermore, a 1% tariff reduction by RCEP members would increase Indonesia's trade by more than 2% on average.

All 15 members stand to benefit from the RCEP agreement. However, Indonesia stands to gain in particular from its new free trade agreements with Japan and South Korea.

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<sup>10</sup> Ayman Falak Medina, "An Overview of Indonesia's Free Trade Agreements", <https://www.aseanbriefing.com/news/an-overview-of-indonesias-free-trade-agreements/>, accessed February 28, 2024

<sup>11</sup> Xuan An 2022, Indonesia officially ratifies RCEP Agreement, <https://tapchicongthuong.vn/bai-viet/indonesia-chinh-thuc-phe-chuan-hiep-dinh-rcep-98402.htm>, accessed March 10, 2024

**First, RCEP promotes regional supply chains and Indonesian economic growth.** The RCEP Agreement was signed at a time when the Covid-19 pandemic caused a major shock to the world economy, greatly affecting trade and investment, leading to supply chain disruption. Therefore, the RCEP Agreement is important for facilitating multilateral trade, investment and enhancing supply chain recovery of all economies, including Indonesia. The RCEP Agreement is expected to strongly boost net exports of goods and services and become a new growth engine in Asia.

RCEP increases opportunities for regional value chain expansion. According to the Central Statistics Agency of Indonesia (BPS). In 2022, Indonesia's GDP reached US\$1.31 trillion, ranking as the 16th largest economy in the world. In 2023, Indonesia achieved GDP growth of 5.2% compared to the same period in 2022. Industrial production increased by 4.9% and the Purchasing Managers' Index (PMI) of manufacturing increased by 5% (June 23 compared to June 22). Investment from outside Indonesia increased, with foreign direct investment disbursement increasing by 47%.

Signing RCEP creates momentum for Indonesia's trade growth help gross domestic product Indonesia's GDP by 2040 is expected to increase by 0.07%, equivalent to Rp 38.33 trillion (US\$2.65 billion), and FDI investment will increase by 0.13%, equivalent to Rp 24.53 trillion (US\$1.65 billion). The country's exports are expected to increase by US\$5.01 billion and its trade surplus by US\$979.3 million.<sup>12</sup>.

Indonesia and South Korea promote preferential trade in goods and services. With 95% of tariff lines from Indonesia to South Korea and 92% of tariff exemptions from South Korea to Indonesia. Helping Indonesia increase investment, improve product competitiveness, encourage domestic product development, and make customs regulations transparent to facilitate import and export of goods. It is estimated that Indonesia's exports to South Korea will increase by 8.84 billion USD and imports will increase by 8.46 billion USD. The main export items to South Korea include: Coal, copper ore, palm oil, chemicals, textiles, natural rubber. In addition to exports and imports, Korea's FDI investment reached 1.64 billion USD in 2021.<sup>13</sup>.

**Second, RCEP helps Indonesia increase exports to RCEP members.** Indonesia's total export value increased from 180.21 billion USD in 2018 to 323.199 billion USD in 2022. Exports are mainly concentrated in five countries: China is the leading country with an export value of about 24.408 billion USD in 2022, Japan is the second country with an export value of about 16.307 billion USD in 2022, Malaysia is the third country with an export value of 7.903 billion USD in 2022. The fourth and fifth places are Korea and Singapore with an export value of 6.812 billion USD in 2022, Singapore is 9.002 billion USD.<sup>14</sup>. Indonesia's export value to each country is different. China and Malaysia have strong export values, while exports to some countries such as Japan and South Korea have lower export values than China and Malaysia. The above export values show that Indonesia's export growth helps stabilize the economy.

In addition, Indonesia's exports are mainly to countries in the Asia Pacific region such as China, Japan and South Korea. In recent years, the high demand for coal, palm oil, cocoa, coffee and seafood products has created a great demand for Indonesian products. Thanks to the participation in the RCEP Agreement, tariff agreements and trade barriers are removed, making it easier for Indonesian exports to regional and international markets.

**Third, RCEP helps Indonesia RCEP needs to improve ASEAN trade relations.** Indonesia is heavily dependent on ASEAN members. With 25% of Indonesia's total exports going to ASEAN and 23% of total imports coming from ASEAN members in 2019. By joining the RCEP Agreement, Indonesia eliminates issues related to rules of origin in existing trade agreements between ASEAN countries. This reduces regional trade barriers, which is also a turning point that helps bring efficiency in maintaining trade and maintaining competitiveness in trade.

**Fourth, RCEP helps Indonesia increase foreign direct investment (FDI).** Indonesia recorded the highest FDI growth in the world in 2022. According to Indonesian Investment Minister Bahlil Lahadalia, foreign investment increased by 44.2% compared to 2021, accounting for 54.2% of total FDI. The industries

<sup>12</sup>Xuan An 2022, Indonesia officially ratifies RCEP Agreement, <https://tapchicongthuong.vn/bai-viet/indonesia-chinh-thuc-phe-chuan-hiep-dinh-rcep-98402.htm>, accessed March 10, 2024

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<sup>14</sup> Amir, F., Hakim, DB, & Novianti, T. (2020). The Impact of Export Diversification on Economic Growth of ASEAN Member Countries.

that concentrated FDI capital were the metal, machinery and equipment industry with FDI investment of up to 10.96 billion USD. The mining sector ranked second with FDI investment of about 5.1 billion USD, followed by chemicals and pharmaceuticals with 4.5 billion USD and transportation and telecommunications (4.1 billion USD), electricity, gas and clean water supply (3.8 billion USD), real estate (3 billion USD). Domestic and foreign investment projects created more than 1.3 million new jobs in 2022. This has created new economic growth momentum for Indonesia.

### 3. Reviews

Participating in the RCEP Agreement brings many benefits to Indonesia. It creates favorable conditions for Indonesia to attract more FDI. In addition to eliminating tariffs, RCEP adds a reform program that commits to opening the market in the field of goods and services, especially the Omnibus Law reforms, which were recently passed by the National Assembly in 2021 (the Omnibus Law is the Job Creation Law). The legal reforms brought about by the Employment Creation Law are expected to improve Indonesia's competitiveness and investment, increase its participation in regional and global value chains, and maximize potential benefits. To maximize the benefits from RCEP, Indonesia has increased its participation in regional and global production networks. This is achieved through economic reforms aimed at creating a good business environment, more flexible labor markets, and the need to open trade and investment policies.

On the other hand, the RCEP Agreement plays an important role in helping the Indonesian government implement more substantial and substantive economic reforms.

Indonesia's commitments under the RCEP can be used to accelerate economic reforms while providing a coherent policy reform framework that allows for the development of a credible policy reform agenda. For example, the Government Procurement Chapter under the RCEP can promote transparency in procurement processes. Meanwhile, the RCEP Business Competition Chapter can ensure that competition laws are transparent and applied in a due process. Finally, the Small and Medium Enterprises Chapter, together with the Economic and Technical Cooperation Chapter, can provide a framework for aligning empowerment programs to improve the ability of small and medium enterprises to participate in and take advantage of opportunities under the agreements and mitigate the adverse effects of structural changes brought about by the implementation of the RCEP.

To make RCEP Agreement help Indonesia gain more benefits:

*One is*, It is necessary to continue and accelerate the implementation of economic reforms currently underway to maximize the benefits from the RCEP Agreement. In this regard, the government needs to amend the Employment Creation Law authorized by the constitutional court. Indonesia needs to prepare derivative rules and regulations that are fully consistent with the spirit of the Omnibus Law and Indonesia's commitments under the RCEP as well as other FTAs.

*Two is*, the government needs to improve coordination between ministries and organizations, both at the central and local levels, and needs to gain support from the entire system of state agencies to accelerate the implementation of RCEP as well as economic reforms.

*Three is*, the government should increase the dissemination of RCEP socialization to businesses and localities, and at the same time introduce policies to protect social security, protect workers' health, the environment, social ethics, ensure the balance of payments, and facilitate foreign investment flows. In particular, the government should support capacity development for small and medium-sized enterprises and local workers to gain support in implementing the RCEP Agreement.

In short, RCEP is not only an important Agreement that brings major benefits to all Member States with its trade facilitation programs outside the WTO, but also an Agreement that represents the region's greatest contribution to the common effort to promote global economic growth. For Indonesia, RCEP has established an open, rules-based, goodwill and inclusive trading system in the Asian region including Japan and Korea. RCEP will not only bring economic benefits but also emphasize the importance of inclusive integration. Compared to other FTAs, RCEP has some provisions that are not found in other FTAs such as e-commerce, government procurement and competition. Strengthening the rules of origin in ASEAN is also a significant contribution of RCEP.

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