



The Habibie Center

Talking ASEAN

**"Progress and Further Agendas of the
Regional Comprehensive Economic
Partnership (RCEP)"**



Presentation and Discussion Report

Tuesday, 29 April 2014 at 14.00 - 16.00
The Habibie Center Building
Jl. Kemang Selatan no. 98, Jakarta 12560



DISCUSSION REPORT

Talking ASEAN: “Progress and Further Agendas of the Regional Comprehensive Economic Partnership (RCEP)”

The Habibie Center, Jakarta, Tuesday, April 29, 2014

Introduction

JAKARTA – On Tuesday, 29 April 2014, The Habibie Center held a Talking ASEAN dialogue entitled “Progress and Further Agendas of the Regional Comprehensive Economic Partnership (RCEP)” at The Habibie Center Building in Jakarta. This edition of Talking ASEAN featured Mr. Iman Pambagyo (Director General for International Trade, Ministry of Trade, Republic of Indonesia), Dr. Julia Tijaja (Researcher, Fung Global Institute) and Dr. Mohammad Faisal (Senior Researcher, CORE Indonesia) as resource persons with Dr. Alexander C. Chandra (Trade Knowledge Network IISD) as the moderator.

The objectives of this Talking ASEAN dialogue were as follows: (a) to review the current state of RCEP negotiations and identify important challenges for the future of regional trade cooperation, (b) to analyse the progress of RCEP negotiations and its implication to regional trade cooperation, and (c) to explore more deeply further agenda pursued in the negotiation, specifically on how parties will tackle Rules of Origin problem in ASEAN FTAs. Key questions to be addressed by the dialogue included: what progress has been made so far during the negotiations? What the negotiators have agreed to and/or what details have been made known to the public? What have been the contentious issues so far? And what will the future agenda of the RCEP negotiations be?

This discussion report summarizes the key points of each speaker as well as the question and answer session that followed.

Mr. Iman Pambagyo (Director General for International Trade, Ministry of Trade, Republic of Indonesia)

The first to speak at the Talking ASEAN dialogue was Mr. Iman Pambagyo who began by expressing his pleasure to share with the audience the Ministry of Trade’s information on the RCEP. Noting that many saw him as the ‘biological father’ of the RCEP, Mr. Iman recounted how the RCEP initiative was started in 2011 by himself and Ms Mari Pangestu (then Indonesian Minister for Trade, 2004-2011). Mr. Iman proceeded by going over the main things to consider when talking about the RCEP. Mainly, that there are three mega regional initiatives taking place: (1) the RCEP involving 16 countries; (2) the Trans-Pacific Partnership involving 12 countries; and (3) the Trans-Atlantic Trade and Investment Partnership involving 29 countries.



The Habibie Center

The big questions therefore were: what will the region look like in the future? And should ASEAN and Indonesia take an active role in reshaping the region?

In order to answer these questions Mr. Iman briefly expanded on ASEAN stating that the regional organization was a '10-member happy family' working towards the realization of the ASEAN Economic Community (AEC) 2015. Here Mr. Iman conceded that there were some who questioned whether ASEAN could achieve its AEC 2015 target and whether it was possible for ASEAN to establish a post-2015 agenda. However, he took the view that ASEAN would be able to achieve the AEC 2015 as well as to establish a post-2015 agenda. To support this view, Mr. Iman highlighted the journey of ASEAN noting that in 1977 the regional organization adopted a Preferential Trading Agreement (PTA), which later improved to a Common Effective Preferential Tariff – ASEAN Free Trade Area (CEPT AFTA) in 1992. This was later followed by an expansion of ASEAN membership and the embracing of non-ASEAN members as FTA partners.

This journey was seen as a clear progression towards the envisioned AEC 2015 and Mr. Iman underlined that ASEAN would be ready for the AEC in 2015; a message he conveyed to the recently-appointed Minister of Trade. Mr Iman went on to remind the audience that the regional ASEAN agenda for the AEC consisted of four aspects: (1) single market and production base; (2) competitive economic region; (3) equitable economic development; and (4) integration into the global economy. To measure ASEAN's progress towards achieving the AEC Mr Iman pointed to the AEC Scorecard which showed that in Phase 1 (2008-2009), 89.5% had been completed at the regional level and 92.7% for Indonesia. Interestingly the AEC Scorecard showed the regional completion rate had dropped in Phase 2 (2010-2011) and Phase 3 (2012-2013) at 76.4% and 55.1% respectively. This was explained by the fact that, while some measures under earlier timeframes are yet to be completed, new measures under the current timeframe were already due. Indeed Mr Iman revealed that ASEAN officials had met to discuss how to improve the way ASEAN monitored the achievement of its commitments. It was hoped that by the end of 2014 a more accurate way to measure the region's achievements could be found.

Moving on, Mr Iman highlighted the progress of individual ASEAN states towards the AEC implementation rate using statistic from 2008-2013. Indonesia was shown to be one of the slowest with only 77.0%. However Mr Iman explained that Indonesia should not be compared so simplistically with other ASEAN countries because of the different size of its economy which made it as critical mass of ASEAN.

After presenting the status of key measures for the AEC 2015, Mr Iman explained that a post-2015 agenda was already being considered and that ASEAN had met twice to look into defining what ASEAN will work on for the next ten years. He stated that the main idea was to 'consolidate and go beyond.' In particular ASEAN wished to remain relevant to the business community and it was in this sense that the RCEP initiative emerged. Mr Iman provided a general background as to why ASEAN decided to embrace the RCEP initiative and Mr Iman highlighted the sentiment found among ASEAN members that the regional organization should not be cornered into choosing between competing regional proposals such as the Chinese-proposed East Asian Free Trade Area (EAFTA) and the Japanese-proposed Comprehensive Economic Partnership for East Asia (CEPEA). There was also the aspiration of ASEAN to enhance its participation in the global supply chain and the RCEP was also seen as a logical sequence after the realization of the AEC 2015 to enhance ASEAN's own integration.



The Habibie Center

ASEAN was mindful of the fact that there was growing interests in regional initiatives and at the same time, Mr Iman conceded that some quarters were worried about a possible slowing down and even waning of ASEAN's role in shaping the future of the region, with some suggesting that ASEAN seemed reluctant to go any further. As such, RCEP was seen as one possible answer of ASEAN to address the concerns of its external partners as well as being the regional organization's response to its Charter, in particular the call for ASEAN to

'maintain the centrality and proactive role of ASEAN as the primary driving force in its relations and cooperation with its external partners in a regional architecture that is open, transparent, and inclusive.

Mr Iman then highlighted the basic concepts of the RCEP which was to consolidate the existing ASEAN+1 FTAs based on the principles of: (1) WTO-consistent; (2) Significant improvement over existing FTAs; (3) Facilitation of trade & investment; (4) Acknowledge the different levels of development; (5) ASEAN+1 FTAs & bilateral/multilateral FTAs continue to exist; (6) FTA partner(s) can join at a later stage; (7) Technical assistance & capacity building available' & (8) Parallel negotiations toward comprehensive & balanced outcomes.

He went on to note that the RCEP was not starting from scratch. The East Asian region already scored high in terms of production integration vis-a-vis other sub regions in the world and also notched up moderate levels of integration in final goods and services. As such Mr. Iman felt that the East Asian region was very promising, especially when the potential RCEP market size, GDP (both nominal and PPP) and total merchandise was compared with other economic groupings.

Turning his attention to the issue of the RCEP and the US-driven Trans-Pacific Partnership (TPP), Mr Iman believed that while there were some overlapping and similar areas, there were also some areas where the RCEP was not willing to negotiate (e.g. environment), at least for this moment in time. In contrast, the TPP has from the outset already stated its intention to include areas such as environment and agriculture. While the TPP has now held 24 rounds of negotiations, it was noted that the RCEP had so far held 4 rounds. He went on to say that the RCEP began with the aspiration to have a single schedule of commitment with limited deviation for sensitive areas whereas the TPP departed from a network of bilateral concessions then looking into common commitments.

Mr Iman then went on to address how the RCEP would benefit its members. He pointed to studies on the core benefits of the RCEP to its members including a study by the Indonesian Ministry of Trade in 2012. These showed that there were significant welfare gains from the RCEP for its members and that RCEP members would experience additional growth (although admittedly Australia and New Zealand would see very small additional growth and Singapore would in fact experience negative growth as a result of the RCEP). It was also revealed that with the exception of Japan and Australia, RCEP members would experience negative changes in their balance of trade. Despite this, Mr Iman pointed to studies from ERIA that compared the impact of welfare on ASEAN member states in four different situations.¹ The conclusion of this study was that if ASEAN stuck only to the AEC 2015 and disregarded the other regional economic initiatives, the welfare gain would be minimal. In contrast if ASEAN embraced the RCEP, its member states would enjoy the most benefits. In terms of impact on GDP, studies also showed that the benefits of the RCEP outweighed the benefit of other configurations.

¹ The four situations are: ASEAN, ASEAN FTA+CJK, ASEAN+3 and ASEAN+6.



The Habibie Center

Mr. Iman's presentation then turned its attention to identifying the key challenges faced by RCEP parties. He highlighted the perennial issues of limited resources & conflicting schedules which had seen discussions drag on for two years. He also highlighted the three dynamics of ASEAN, ASEAN and ASEAN FTA partners, & amongst ASEAN FTA partners themselves. The dynamic between ASEAN FTA partners with each other was seen as the most interesting as Mr Iman revealed that they often did not have an FTA between them (and only with ASEAN). Other challenges highlighted were: domestic support of lack of; no precedence to emulate; competing agenda of individual participants; geopolitical considerations; and switching allies at the last moments.

A mapping of ASEAN members' commitments across the various ASEAN+1 FTAs in trade of goods was then presented. Indonesia had the lowest ASEAN average of 83% but this was explained by problems in Indonesia's commitment to the ASEAN-Indian FTA (49%) which significantly distorted its overall average. Mr Iman also showed the commitments of ASEAN's FTA partners to their respective ASEAN+1 FTAs. For example, Australia had already met 100% of its commitments in trade of goods whereas India's was 79%. As such there were different levels of commitment. A similar pattern was seen in the commitments to trade in services. As such there was plenty of diversity that needed to be consolidated under the RCEP. On investment, Mr Iman mentioned that ASEAN had yet to conclude an investment agreement with Japan. Although there was an agreement, it had yet to be signed.

Towards the end of this presentation, Mr. Iman updated the audience on the status of the RCEP following the fourth round of negotiations. He revealed that the RCEP Trade Negotiating Committee remains the ultimate body for decision making & provides guidance to negotiating groups/sub-groups under RCEP. It was also revealed that a number of working groups had been established (on goods, services, investment, intellectual property, competition and eco-tech) with a working group on legal and institutional issues to be established in the next round of negotiations. Mr Iman also stated that a number of sub-working groups were established including on Rules of Origins (ROO). The text of the draft agreements on goods, services and investment was seen as one of the most challenging issue and Mr Iman stated that the RCEP members still needed to decide on how to treat the issue of SMEs and e-commerce, which were a particularly difficult issue for ASEAN.

However, the key issue at this point was seen to be determining the modality for negotiations which Mr. Iman identified as the key deliverable of the discussions for 2014. Elaborating on the modality for the RCEP, Mr Iman referred to questions such as how to define the overall target of liberalization? Should it be 80% or 95%? Would this be acceptable to ASEAN's FTA partners who were accustomed to 100% liberalization targets? There were also questions over the threshold for initials meaning what was the acceptable number of tariff lines to start with? Other questions referred to the categories of commitments. Should they include reduction and exclusion? What would be the level of commitments on the date of Entry Into Force (EIF)? To what extent should there be a possible deviation from a single schedule approach? Should there be a positive approach to investment scheduling & negative approach to services scheduling?

The final issue touched in Mr Iman presentation was on the open accession clause under RCEP which had attracted some attention. While ASEAN FTA partners that are not ready to participate in the RCEP negotiations at the outset would be allowed to join the negotiations at any given time, subject to certain terms and conditions, Mr. Iman explained that ASEAN's Non-FTA partners that express interest to join the RCEP shall only be entertained after the completion of the RCEP negotiations.



The Habibie Center

Dr. Julia Tijaja (Researcher, Fung Global Institute)

The next to speak was Dr. Julia Tijaja who was grateful to Mr. Iman for presenting how the RCEP negotiations came about and what the potential gains would be for RCEP members. Noting that the RCEP negotiations were still ongoing and that even the modalities for negotiations were still under discussion, Dr. Julia stated that there was little concrete information to hold on to. She expressed her intention to set out the areas of consideration with regards to the RCEP and the elements that RCEP members had highlighted to be included in the negotiations. She began by describing the RCEP as a very significant economic grouping, representing almost half the world's population (due to the inclusion of China and India), 30% of the world's GDP, and 30% of global trade.

Dr. Julia highlighted that presently, the RCEP's Guiding Principles and Objectives adopted in November 2012 were the main source of information on the RCEP. In these documents it can be noted that the RCEP members agreed to include the following in its negotiations: trade in goods, services, investment, economic and technical cooperation, intellectual property, competition, dispute settlements and other issues to be mutually agreed. Key to ASEAN, according to Dr. Julia was the issue of ASEAN Centrality. She noted with interest that the target date for the RCEP' conclusions (end of 2015) also happened to be the same target date for the AEC 2015's launch. As such it was seen as something worth looking into and Dr. Julia felt it would be interesting to see how ASEAN would create the synergy between what the regional organization was trying to do as a group internally and how it would try to extend it externally in its relationship with ASEAN FTA partners.

Dr. Julia also observed elements of consistency with the WTO, in particular GATT articles 24 and 25 on substantial liberalization. At the same time, Dr. Julia explained that the RCEP aimed to go beyond by being modern, comprehensive, high quality and mutually beneficial. She then questioned what does it actually meant before suggesting looking at the RCEP's general principles in detail in order to dissect it and find the answer. From this, Dr. Julia argued that the RCEP was meant to build upon and be broader than existing FTAs by covering areas not previously covered. She also took the view that the RCEP was meant to go deeper, not only in terms of greater commitments but also beyond it to include implementations such as how to ensure high rate of utilization once in place.

Dr. Julia pointed out that there was specific reference to RCEP members' greater participation in the global supply chains. It was for this reason that the RCEP tried to cover trade and investment as well. She referred back to Mr. Iman's presentation which had shown that production integration was already taking place among RCEP parties. Dr. Julia added that this was nothing new and was naturally occurring at this point. The RCEP would further this momentum.

The flexibility of the RCEP negotiations was also addressed by Dr. Julia. Admitting that RCEP's flexibility had provoked a lot of discussion as to whether it was a positive or negative point, Dr. Julia suggested it had some advantages as it enabled consensus to be built and was part of the ASEAN Way. However she wondered whether or not this would mean RCEP would simply end up with agreeing to the lowest common denominator. Quoting the RCEP's guiding principles which stated the RCEP needed to seek appropriate forms of flexibility, differential treatments, and greater flexibility for least developed members, Dr. Julia asked whether flexibility meant different end goals or same end goals but different time frames? This was still under negotiations but Dr Julia opined that from reading available information, RCEP members



The Habibie Center

acknowledged the need to recognize different levels of development and capacities. In any case, Dr. Julia stated that different time frames was to be expected and that the only real question was to what extent the different time frame deviate from the original launch date.

Observing that the guiding principles had stated that existing ASEAN+1 FTAs would stay in place rather than be replaced by the RCEP, Dr. Julia believed this would provide a good opportunity for RCEP members to not be conservative in their negotiations as there was always the ASEAN+1 FTAs to fall back on. She also noted that regarding the open accession clause, as mentioned by Mr Iman, non-ASEAN+1 FTA partners would only be allowed to join after the negotiations were completed based on the terms and conditions set out by the original RCEP members. Here Dr. Julia wondered whether all the RCEP members had to agree before allowing a new party to join or whether the terms and agreements could be agreed upon at the outset and any aspiring new parties be judged on whether they met them or not.

One area that Dr. Julia found very interesting was technical assistance and capacity building. While the guiding principles revealed that these *may* be provided, it was not necessarily guaranteed. Dr. Julia added that these were to be built upon the existing mechanisms but wondered what this was supposed to mean and did existing mechanisms work in the first place? Moreover, she questioned if the RCEP was to cover other areas not currently covered in existing ASEAN+1 FTAs, how would ASEAN countries cope in areas such as capacity building. This would be a very relevant for not only the smaller ASEAN countries but also Indonesia. Clearly a lot of homework was needed to be done at the national level and Dr. Julia argued that this was true not only for ASEAN states but even the more developed RCEP members. It was also noted that overall, technical assistance and capacity building seemed to be compressive in the guiding principles as it not only cover areas of participation in negotiations but also included implementation of obligations under RCEP and more importantly encompassed efforts at assisting RCEP members to maximise the benefits of RCEP itself once in place.

Moving on to the negotiation process, Dr. Julia highlighted that holding negotiations in parallel was an advantage as it meant no one area under negotiation could take hostage of all the other areas. However Dr. Julia suggested that consideration should be made for smaller countries which may not have the required capacity to handle such parallel negotiations all at one time. Looking into trade in goods, Dr. Julia said that the RCEP aimed to remove both tariff and non-tariff barriers. She pointed out that while tariff barriers had been decreasing, there had been a rise in non-tariff barriers. While not all non-tariff barriers should be removed as some admittedly serve public policy objectives, Dr. Julia argued that the key thing was to minimize their distortion to trade. Questioned that needed to be answered was whether RCEP intended to have a common concession approach or not? While this may be simpler, it remained to be seen whether all RCEP countries could agree on this approach. This was especially so since existing ASEAN+1 FTAs had different level of ambitions. Whereas the AANZFTA (ASEAN-Australia-New Zealand Free Trade Agreement) called for 95% trade liberalization, the AIFTA (ASEAN-India Free Trade Agreement) was under 80%.

On the issue of Rule of Origins (ROO), Dr. Julia argued that the RCEP provided a great opportunity to address the issue of the “spaghetti bowl” effect which was caused by the existence of different ROOs not only in different FTAs but even within one FTA for different products. Developing a full list of schedules of products for specific ROO was not an easy task according to Dr. Julia and this was all the more true for the smaller ASEAN members. Dr. Julia called for this area to be looked at in more depth and suggested that the challenge faced by smaller ASEAN members should be recognized. She added that ASEAN needed to articulate



The Habibie Center

better the type of ROO it wished to develop and also urged for the operational side of ROO to be explored greater. This was especially so since the utilization rate of FTAs were not that great; a trend seen not only in ASEAN but around the world.

Turning towards services, Dr Julia highlighted that the level of restrictiveness was highest in East and Southeast Asia compared to the world average. This was therefore seen as a huge area of potential for the RCEP and she pointed to ASEAN's trade in service agreement with China and S. Korea which unfortunately did not include additional commitments to those committed as part of the GATT. Looking at the types of services indicated, Dr Julia said the greatest limitations were found in movement of national persons, types of legal entities, and participation of foreign capital. She argued that instead of saying simply "we want to liberalize services", RCEP members needed to articulate what are the most restrictive limitations currently in place. This would help RCEP members come up with a better agenda and thus required greater input from the business sectors to understand the service limitations that they faced.

Towards the end of her presentation, Dr Julia stated ASEAN's five priority areas in the service sector, namely: e-commerce, tourism, health care, air transports, and logistics. This was seen to echo the connectivity agenda of ASEAN and Dr Julia stated that there was potential for synergy if this was built into the RCEP agenda thereby helping with the ASEAN integration as a whole. Moreover, since RCEP leaders had already stated their desires to include the issue of global supply chains it made sense to attach the five priority areas to the issue of service. Dr Julia argued that services had been under researched and underappreciated so far despite the fact it contributed 40-50% of GDP and provided employment in these countries.

In summing up, Dr Julia concluded that the RCEP posed huge opportunities and should not be seen as a threat. ASEAN needed to take a stand and better articulate and synergize their own regional integration agenda with their objective to integrate externally. RCEP should provide meaningful outcome and avoid the lowest common denominator trap. At the same time it should also avoid to trap of trying to be something that was too perfect that it ended up being impractical. Finally the RCEP should bring mutual benefits to all parties, not just between ASEAN and the other RCEP parties but also among the different ASEAN members from the poorest until the richest.

Dr. Mohammad Faisal (Senior Researcher, CORE Indonesia)

The last to speak was Dr. Mohammad Faisal who began by thanking Mr Iman for sharing the recent developments of RCEP. Dr. M. Faisal explained that prior to pursuing his PhD he had previously worked in the ASEAN Secretariat where had made a lot of research on the AEC 2015 and East Asian Summit and was therefore happy to see this had now developed into the RCEP agenda. Dr. M. Faisal then proceeded to his presentation which he said would offer an Indonesian perspective towards the RCEP. He stated that the obvious benefits of the proliferation of regional trade agreements which would culminate in the RCEP was increasing trade volume and value within ASEAN and between ASEAN and its RCEP partners. However, Dr. M. Faisal wished to delve deeper on the question of how much benefit has been observed in terms of trade balance and employment?

With regards to the trade balance, Dr. M. Faisal said there had been a widening trade deficit between ASEAN and its six different RCEP partners. This was especially the case for ASEAN's trade balance with China, S. Korea and Japan which had worsened over the last ten years. A similar trend was seen in Indonesia's trade balance with the RCEP economies which showed a



The Habibie Center

declining trade performance on Indonesia's part over the last ten years. Dr. M. Faisal pointed out that Indonesia originally started with a trade surplus vis-a-vis the RCEP partners but that the country's trade performance had decline especially since the global economic crisis in 2008-2009.

Dr. M. Faisal then went into more details by showing the increasing trade deficit in the Indonesia-China trade. While Indonesian exports and imports had both increased over the past ten years, the imports outweighed exports thus causing a widening trade deficit. He added by showing the structure of Indonesia-China trade to explain why Indonesia was experiencing a trade deficit. It was seen that Indonesia's export was dominated by lower value commodities such as raw materials whereas Indonesia's imports was dominated by high value commodities such as capital goods.

It was also pointed out that the trend of Indonesia's declining trade performance was also seen in the intra-ASEAN trade balance. Indeed Indonesia had the worst performance among the ASEAN countries of Singapore, Thailand, Malaysia, Vietnam and the Philippines. While the structure of Indonesia-ASEAN trade was not as extreme as the Indonesia-China trade, Indonesia still suffered from being the supplier of lower value-added commodities and importer of higher value-added commodities. Dr. M. Faisal then went on to show that in terms of balance of trade in services, Indonesia had the largest and most persistent deficit among the aforementioned ASEAN countries. Since 2001 Indonesia had a balance of trade in services deficit which had not improved by much and moreover the magnitude of the deficit was the largest. He explained that this deficit was led by transportation and was one of the major homework Indonesia needed to be tackled.

Turning his attention to how much benefit has been observed in terms of employment Dr. M. Faisal questioned how would the free flow of skilled labour affect employment in Indonesia. He underlined the fact that Indonesia was dominated by a low skilled and low educated workforce. For example, 67% of Indonesia's workforce were junior high school graduates or below and 52% were primary school graduates or below. This was in stark contrast to the situation in Malaysia, Singapore or the Philippines which had 80% senior high school and university graduates. Due to the low competitiveness in domestic and regional job markets, Dr. M. Faisal predicted a potential increase in domestic unemployment.

Dr. M. Faisal also took issues with the notion that increasing investment would lead to greater jobs. While Indonesia experienced massive flow in investment over the last 5 to 10 years, recent data showed that there was a declining employment rate. Thus while investment had increased from Rp 93 trillion in Q1 2013 to Rp 106.6 trillion in Q1 2014, the number of jobs had actually fallen from 361,924 in Q1 2013 to 260,156 in Q1 2014. This was because most of the investment flows were to capital-intensive industries. In contrast there was declining competitiveness in the labour-intensive sectors thereby increasing production costs such as labour (increasing pressure for lay-offs). Looking by sectors,

Looking by sectors of labour-intensive industries, Indonesia had especially seen declining employment in textiles (1,207,000 jobs in 2006 to 1,181,000 jobs in 2010) and food & beverages. (784,000 jobs in 2006 to 714,000 jobs in 2010). More worrying was the large number of informal workers (especially in agriculture) which were particularly vulnerable to economic disruptions such as volatile prices. Dr. M. Faisal mentioned that while Indonesia's GFP had been growing, fewer jobs had been created in Indonesia. While in 2008, there was 433,000



The Habibie Center

jobs created for every 1% of GDP growth, in 2012 that value had fallen to 164,000 jobs created for every 1% of GDP growth.

Towards the end of his presentation, Dr. M. Faisal presented the homework Indonesia faced in terms of the challenges towards economic competitiveness and impediments to gain further benefits from trade liberalization. These included: unintegrated government policies that suffered from partial or sectoral approaches; limited coordination both vertically (central government and local government) and horizontally (between ministries); bureaucratic problems; poor infrastructure; low energy supplies and electrification which impeded investment; labour challenges such as increasing wage leading to layoffs and relocations; and the geographical characteristic of Indonesia as an archipelago which led to high logistic costs.

Question and Answer Session

Comment No.1: How likely will the RCEP negotiations be completed by end of 2015?

Comment No. 2: At the last ASEAN Economics Ministerial Meetings in Singapore there were some indications that the AEC would not be completed by 2015. Given that the speakers have talked about the synergy between the AEC 2015 and RCEP, what impact will this have on the RCEP?

Regarding the 6 non-ASEAN RCEP parties, what is supposed to happen between them? Are they supposed to integrate with each other as well or do they only integrate separately with ASEAN? Also is the RCEP only about consolidating and deepening existing agreements or is it about becoming one large community like the TPP vision?

Response:

In response to the questions **Mr. Iman** answered that by the end of 2015 he expected that at the very least the core elements of the RCEP negotiations would be complete. He underlined that the modality for negotiations was the key and once this could be agreed upon, the RCEP parties would make significant progress and see negotiations accelerate. Mr. Iman admitted that the AEC may not be ready by 2015 and that ASEAN officials were aware of this possibility since meetings 2 years ago. He revealed that the instructions given to senior officials were to focus on the “must have” elements for a truly well-functioning economic integration. By this he meant areas such as tariff elimination, custom cooperation, the ASEAN single window, etc. Regarding the RCEP, Mr. Iman stated that this was part of the post-2015 agenda and would consolidate the unfinished business. However he also said that ASEAN wished to go beyond that and was optimistic that by end of 2015 there would be some degree of achievement.

On the question of what was expected to happen between the 6 non-ASEAN RCEP countries, Mr. Iman observed that they were very committed to developing an agreement between 16 countries and not just an agreement between ASEAN and 6 separate countries. On whether ASEAN wanted to see a community-building result as aimed by the TPP, Mr. Iman argued that the TPP was perhaps too ideal. ASEAN was aware that it was not yet ready to reach that level of community, at least for the time being.

Dr. Julia meanwhile added that in terms of completing the RCEP by 2015, this underlined the advantage of having flexibility. This allowed for RCEP to focus on achieving some agreement on the core areas which was seen to be a much more feasible goal.



The Habibie Center

Comment No. 3: in the 20th century everyone talked about APEC as being our common goal. However in the 21st century the discourse is about RCEP and TPP. Has the APEC become obsolete? Is RCEP expected to be more successful than APEC?

Response:

Mr Iman felt that this was a very interesting point being raised and suggested that APEC was non-binding and voluntary in nature. He explained that in his many years of experience attending APEC meetings, APEC had emerged as a miniature North-South dialogue with no binding commitments being discussed. As such APEC was seen as a forum by which developed and developing countries to talk with each other and also served as an incubator to bridge gaps and understanding before the parties went elsewhere to conclude binding agreements. Mr. Iman contrasted this with ASEAN which was started in 1967 during the period of the Cold War. The initial commitments of the regional organization were to build a peaceful and economically stable region undisturbed by the Cold War. He noted that since the Cold War had ended, economic cooperation had taken on a bolder role in ASEAN's agenda and become the key area for ASEAN cooperation. It was now natural to think about going beyond ASEAN, and Mr. Iman pointed out that if we mapped the greater East Asia region we could see that ASEAN was concluding FTAs with all the major countries surrounding it. Having done this, the focus was on consolidating all these different ASEAN+1 FTAs. On whether or not RCEP leaders envisaged the emergence of a community of 16 nations, Mr. Iman suggested it was best to ask other officials as his task was solely on consolidating the existing agreements.

Comment No. 4: Is RCEP really in the interest of Indonesia. We saw from the Dr. M. Iqbal's presentation that Indonesia would suffer from negative balance. How can we ensure that RCEP would not widen Indonesia's negative trade balance?

Response:

Mr. Iman underlined the RCEP was a priority for Indonesia reminding that as far back as January 5, 2011, Indonesia had already been planning about the key deliverables for its chairmanship of ASEAN. Although statistics may show that Indonesia would suffer under the RCEP, Mr. Iman questioned whether this was a direct result of RCEP. He pointed out that problems such as low levels of education, connectivity, skills and also the prevalence of corruption would remain a problem dragging down Indonesia's performance regardless of whether Jakarta pursued the RCEP or not. **Dr. M. Faisal** added that it was clear Indonesia supported the various trade agreements with other ASEAN members through the AEC 2015 and with the ASEAN+6 through the RCEP. He explained that his presentation was meant to highlight the homework faced by Indonesia and that it was not about how FTAs would negatively impact the country. It was clear that Indonesia had a lot of homework to do domestically, but in terms of the negotiations, Indonesia would still go ahead.

Comment No. 5: Some of the charts show Indonesia will not benefit much from the RCEP. In a true regional community you would imagine that the place to invest would be Indonesia given that it is the heart of the ASEAN economy. Why will other countries benefit more the RCEP than Indonesia when it forms 40% of the ASEAN economy?

Response:



The Habibie Center

Here **Dr. M. Faisal** stated that when we talked about benefits and costs, we were mainly talking about trade deficits which were a reality of life. This was seen as different from investment where Indonesia was witnessing a sharp increase ranking second after Singapore. Dr. M. Faisal called this as the bright side of the statistics in contrast to the negative trade deficits. However he reiterated that when talking about investment there were a few points to consider. Does it lead to more job creation? Recent statistics show more investors are interested in capital-intensive industries instead of labour-intensive industries due to the lower costs involved. As such labour-intensive industries tended to suffer more from rising investment. Dr. M. Faisal described this as the homework for Indonesia to manage investment and to ensure that increased investment has a positive implication on domestic employment.

--End--

