



19th TALKING ASEAN

Jokowi's Trade Policy: Determining Indonesia's Position on the Regional Comprehensive Economic Partnership and the Trans-Pacific Partnership

**The Habibie Center, Jakarta
February 24, 2015**

INTRODUCTION

JAKARTA – On Tuesday, 24 February 2015, The Habibie Center held a Talking ASEAN dialogue entitled *“Jokowi’s Trade Policy: Determining Indonesia’s Position on the Regional Comprehensive Economic Partnership and the Trans-Pacific Partnership”* at The Habibie Center Building in Jakarta. This edition of Talking ASEAN featured Prof. Dr. Firmanzah (Rector of Paramadina University); Dr. Yose Rizal Damuri, Head of the Department of Economics, Center for Strategic and International Studies (CSIS); Mr. Reza Pahlevi Chairul (Representing Dr. Donna Gultom, Director of ASEAN Cooperation, Ministry of Trade - Republic of Indonesia) as resource persons, with Dr. Alexander C. Chandra (Executive Director, ASEAN Business Advisory Council and Associate Fellow, The Habibie Center) as the moderator.

The objectives of this Talking ASEAN were to elaborate the perspective from various experts: (a) to address the opportunities presented by Indonesia’s participation of the RCEP and possible joining up with the TPP; (b) to identify the internal and external challenges facing the Government of Indonesia in determining Indonesia’s position on the RCEP and the TPP; and (c) to produce possible recommendations for the Government of Indonesia with regards to the RCEP and TPP.

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

SPEAKERS' PRESENTATION

— Mr. Reza Pahlevi Chairul



Mr. Reza Pahlevi Chairul - Representing Dr. Donna Gultom,
Director of ASEAN Cooperation, Ministry of Trade - Republic of Indonesia

On behalf of Dr. Donna Gultom, Mr. Reza Pahlevi Chairul started his presentation by explaining the three mega trading-blocs: the Regional Comprehensive Economic Partnership (RCEP), the Trans-Pacific Partnership (TPP), and the Transatlantic Trade and Investment Partnership. Besides that, there will be the Free Trade Area in the Asia Pacific (FTAAP) which comprises all APEC members. According to Mr. Reza, the RCEP was meant to be a trade-bloc that would be mutually beneficial. However, since ASEAN was the initiator it was important for ASEAN to maintain its centrality. On the other side, there was the TPP. However, the TPP had a different nature than the RCEP. TPP was too restrictive hence Indonesia was not ready yet to participate, according to Mr. Reza. Indonesia still needed flexibility in participating in free trade. However, Indonesia did not close its participation on the TPP and it would prepare its participation step by step until it was ready.

In addition, President Joko Widodo at the APEC Leaders Meeting in Beijing had already said that Indonesia would join neither the TPP nor RCEP unless they gave advantages for Indonesia.

He further explained that Thailand would gain the biggest benefit from the RCEP in terms of welfare. On the other hand, in terms of economic growth, Vietnam would benefit the most from the RCEP.

Indonesia would also gain benefits however it would face some challenges, such as tariff reduction. For Indonesia, it was not easy to reduce tariffs since it would likely get a strong objection from political parties. Moreover, Indonesia was still facing problems in terms of regulations and infrastructure development.

In order to benefit from the RCEP, the Government of Indonesia needed to identify and develop potential sectors, such as food products, chemicals, rubber, automotive, electronics, and plastic products.

On the RCEP negotiations, each country was still facing problems since they had different levels of development. With regards to goods, some countries would like to put higher tariff reduction, while on the services, the participant countries were still trying to find a common consensus. On the investment, it was noted that there should be an investment dispute settlement.

“In order to benefit from the RCEP, the Government of Indonesia needs to identify and develop potential sectors, such as food products, chemicals, rubber, automotive, electronics, and plastic products.”

-Mr. Reza Pahlevi Chairul-

SPEAKERS' PRESENTATION

— Dr. Yose Rizal Damuri —



Dr. Yose Rizal Damuri - Head of the Department of Economics, Center for Strategic and International Studies (CSIS)

The second person to speak was Dr. Yose Rizal Damuri. Regarding the free trade, he explained that President Joko Widodo's administration gave mixed signals. Over the past 2-3 years, Indonesia's policy towards free trade had been inward looking. In 2014, the Government even issued an investment negative list. At the APEC meeting, he also said that Indonesia should be very careful in determining its position on trade agreement.

However, in the latest National Medium Term Development Plan, it was stated the importance of Indonesia being integrated into the international economy. It was also mentioned that Indonesia's trade objectives were to increase oil and gas

exports. In order to increase these, Indonesia should increase its participation in these the global supply chain, use active import management, and protect the local industry.

Dr. Yose Rizal Damuri further argued that RCEP negotiation might not be concluded in 2015. Nevertheless, at least there was some good progress. He also explained that the RCEP would be beneficial for Indonesia. The benefits from it were not only from greater market access but also the opportunity to receive more FDI to boost economic performance.

With regard to the TPP, he argued that Indonesia was not going to join the trade pact anytime soon since TPP was too rigid for Indonesia. Another point was that Indonesia saw no benefits from joining the TPP. Indonesia was not losing anything being outside of the TPP unless China, Thailand, and the Philippines joined the trade pact. There was nothing to be afraid off if Indonesia did not join. In other words, for Indonesia, the RCEP was seen as more beneficial than the TPP.

“President Joko Widodo’s administration has been giving mixed signals. Over the past 2-3 years, Indonesia’s policy towards free trade had been inward looking... However, in the latest National Medium Term Development Plan, it was stated the importance of Indonesia being integrated into the international economy.”

-Dr. Yose Rizal Damuri-

SPEAKERS' PRESENTATION

— Prof. Dr. Firmanzah



Prof. Dr. Firmanzah - Rector of Paramadina University

The last person to speak was Prof. Dr. Firmanzah. He started his presentation by explaining the reasons why Malaysia joined the TPP. The reasons were to expand market access opportunities and build investor confidence, to be a global basis production for both domestic and MNC, and to build more structured cooperation with the US, Canada, Mexico, and Peru.

With regard to the two trade pacts, Prof. Dr. Firmanzah argued that Indonesia would step aside of the TPP because the trade agreement was too high profile. On the RCEP, he said that he was not quite optimistic. ASEAN leaders were still focusing on domestic affairs and on preparations for the ASEAN

Economic Community (AEC). He further argued that he did not believe that President Joko Widodo's administration would put the RCEP above the AEC. All ministries were talking about the AEC and rarely spoke about the RCEP. Thus it indicated that the RCEP was not a priority. The year of 2016-2017 would be a time to review the implementation of the AEC. Hence it would distract the focus of government officials from the RCEP. At the same time, Indonesia was busy preparing its domestic economy.

To conclude his presentation, he stated that he did not believe that the RCEP would become a priority in the domestic level. At the regional level, ASEAN leaders would also talk more about the AEC, not the RCEP.

“ASEAN leaders are still focusing on domestic affairs and on preparations for the ASEAN Economic Community (AEC). I do not believe that President Joko Widodo's administration will put the RCEP above the AEC. All ministries are talking about the AEC and rarely speak about the RCEP.”

-Prof. Dr. Firmanzah-

Q&A SESSION



One of the audience raising questions and giving comments during Q&A session.

Comment 1.

Do domestic issues need to be a competition of international issues? Does the RCEP need to be a competition of the AEC?

Prof. Dr. Firmanzah

The important thing now for the Government is to secure domestic economic growth. Currently, Indonesia is experiencing an excess of demand, not excess of supply. That is why our trade balance has been experiencing deficit since the 4th quarter of 2011. The focus now is how to normalize our trade deficit. In order to boost the supply side, the previous administration created MP3EI in which the core of the plan is infrastructure. The problem of excess demand will likely reduce the attention of President Jokowi's administration in discussing the RCEP negotiations. Furthermore, for the next 5 years, the discussion will focus on the AEC because the scheme was already signed since a long time ago.

Dr. Yose Rizal Damuri

The first priority for the Government now is to build infrastructure, and to address how to streamline connectivity in Indonesia, and how to connect the islands to reduce the cost of business. How to compete if we cannot solve domestic problems? President Jokowi should also reduce bureaucracy in the government. The one stop service for investment that is being implemented by President Jokowi's administration is an important policy to solve such domestic problems.

Comment 2.

Some people are optimistic and some other people are pessimistic toward the RCEP negotiations. Thus, we need clarification about the ongoing progress of the RCEP negotiations.

Comment 3.

What does ASEAN centrality mean with regards to strengthening the AEC? Are there any last comment with regards to the TPP and the RCEP?

Q&A SESSION

Comment 4.

What kind of industry does the Government encourage and does not encourage investors to invest? What are the criteria?

Dr. Yose Rizal Damuri

For big countries, regional integration will never be a priority. China is the exception and that is why China benefits from it. The Government of Indonesia will not make regional integration its priority. In addition, President Jokowi's administration still sends mixed signals on what is going to be the Indonesian trade direction. President Joko Widodo and Vice President Jusuf Kalla are pragmatic people in terms of economy. Furthermore, the negotiations of the RCEP will never be concluded by the end of this year. However, there will be substantial progress to direct the process.

With regard to the ASEAN centrality, it is good but it is not something we need to look at in the very high level.

Mr. Reza Pahlevi Chairul

The RCEP negotiations are set to be concluded this year but there are a lot of differences. The chair of the TNC (Trade Negotiation Committee) is trying to push the negotiation in timely manner. However, it is true that it is not easy to be completed by the end of this year. There are pros and cons related to the free trade agreement. In 2014, we have a new trade law whereby if Indonesia signs a trade negotiation, it should be ratified first by the Parliament.

With regard to the last question, the Government has issued a negative list explaining industries that are closed or opened for foreign investors. President Joko Widodo has emphasized that investment should be those that have value-added.



Alexander C. Chandra, Ph.D - Executive Director, ASEAN Business Advisory Council and Associate Fellow of the ASEAN Studies Program, The Habibie Center, moderates the Q&A session.

Prof. Dr. Firmanzah

The RCEP negotiations will not likely be concluded this year. There are still many domestic issues to be solved. All Indonesian delegations are mostly talking about the AEC. Moreover, nowadays, every country is nervous due to the quantitative easing by the US Fed. It will be a disaster. Even when the Fed has yet to decide to increase the interest rate, we are already suffering. Every central bank will be focused on the Fed's decision. All priorities will be distracted, we will continue the trade negotiations but I am not sure. Also, it is important for the Government to think about how the real sector will adopt with the new situation.

Q&A SESSION

Comment 5.

There are always political reasons behind economic integration. For example, the TPP is led by the US and the RCEP is led by China. Besides the two trade pacts, there is another important institution which is the Indian Ocean Rim Association (IORA). There is no dilemma inside the IORA since the US and China are not included. Thus, Indonesia should put more attention on the organization as the Minister of Foreign Affairs, Retno Marsudi, has already mentioned in her speech before.

Prof. Dr. Firmanzah

IORA will be the next topic. We indeed already have a common platform with India through bilateral ties and also ASEAN+1 free trade agreement.

Dr. Yose Rizal Damuri

There are two types of economic integration. First, high level trade agreement such as the RCEP and TPP. Second, market driven. IORA should aim for connectivity integration rather than trade agreement talks.

Mr. Reza Pahlevi Chairul

According to Australian Minister for Foreign Affairs, there are some potentials in the IORA. Thus, Indonesia is open for a discussion on how to enhance the cooperation among IORA members, such as to make the region become a preferential trade agreement.

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