



28th TALKING ASEAN

Indonesia's Participation in Regional Trade Agreements: The Trans-Pacific Partnership vs Regional Comprehensive Economic Partnership

**The Habibie Center, Jakarta
December 17, 2015**

INTRODUCTION

JAKARTA – On Thursday, 17 December 2015, The Habibie Center hosted its 28th Talking ASEAN public dialogue entitled, **“Indonesia’s Participation in Regional Trade Agreements: The Trans – Pacific Partnership vs Regional Comprehensive Economic Partnership”** at The Habibie Center Building in Jakarta. This edition of Talking ASEAN was moderated by Ms. Fina Astriana (Researcher, The Habibie Center) and featured an expert panel made up of Mr. Wijayanto Samirin (Special Staff of Vice President of the Republic of Indonesia for Economic and Finance), Mr. Abdulkadir Jailani (Director for Treaties on Economic, Social, and Cultural Affairs, Republic of Indonesia), and Dr. Berly Martawardaya (Department of Economics, Faculty of Economics and Business, University of Indonesia).

The objectives of this Talking ASEAN were to: (a) explore the reasons behind Indonesia’s sudden interest to join both the TPP and the RCEP; (b) address the opportunities presented by Indonesia’s participation of RCEP and the TPP; (c) identify challenges facing the Government of Indonesia by joining the RCEP and the TPP; (d) discuss what impact Indonesia’s intention to join both the TPP and the RCEP will have on ASEAN centrality/unity; and (e) produce possible recommendations for the Government of Indonesia with regard to RCEP and TPP and ensuring that it increases the welfare of Indonesian people.

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

SPEAKERS' PRESENTATION

Wijayanto Samirin



Wijayanto Samirin - Special Staff of Vice President of the Republic of Indonesia for Economic and Finance

Mr. Samirin was the first one to speak in this edition of Talking ASEAN. He began by mentioning two important points that he would like to address in his presentation: (1) the rationale behind Indonesia's intention in joining TPP, and (2) the country's readiness for joining the agreement.

In the past, countries were connected based on geographical proximity or ideological stances. Nowadays, international trade policy plays a crucial role in interstate relations. The TPP as one of the most-discussed trade initiative has seen wide exposure in many national headlines, especially since President Joko Widodo expressed his intention to join the agreement. However, stressing the use of the word 'intention', Mr. Samirin argued that President Widodo's statement has been interpreted differently by assuming this diplomatic expression was a certain gesture.

Mr. Samirin proceeded by making a few clarifications on the issue. First, Indonesia's interest to join both TPP and RCEP is not a sudden decision. Since the presidential campaign, President Widodo has echoed the importance of joining international trade agreement for the benefit of the people. Second of all, Mr. Samirin responded to the growing perception that President Widodo was taking a different direction to his predecessor Susilo Bambang Yudhoyono with regards to Indonesia's

position in international trade agreements. Mr. Samirin confirmed that both Widodo and Yudhoyono were in fact on the same page and recognized the importance of international trade agreements for the welfare of the Indonesian people in the future.

With regards to the RCEP, Mr. Samirin noticed that in the past, Indonesia benefited 9% from the trade agreement. Currently, the number is increasing to 26-28%. This number showed that regional trade actually meant a great deal for Indonesia.

On the other hand, the TPP was seen to set a higher standard than any other trade agreements. Mr. Samirin argued that focusing on TPP would equip Indonesia to join other forms of trade pacts. Many people see TPP as a harmful agreement, but in Mr. Samirin's view, TPP will enable Indonesia to benefit from the global economy.

One of the advantages that the TPP offers is its 25-year of face-out period which would give Indonesia enough time to reduce the import tax to 0%. It also gives Indonesia more room for flexibility and maneuver to make the best out of its competitive areas, such as: textile, leather, metal, forestry and mining.

Mr. Samirin concluded that there are a few lessons learned from the TPP negotiations. First, Indonesia needs to identify the country's own strengths and weaknesses in order to be well-equipped in future negotiations. Second, Indonesia needs tough negotiators to help represent the country's position and leverage in any international trade negotiations.

"Indonesia's interest to join both TPP and RCEP is not a sudden decision. Since the presidential campaign, President Widodo has echoed the importance of joining international trade agreement for the benefit of the people."

- Wijayanto Samirin -

SPEAKERS' PRESENTATION

— Abdulkadir Jailani



Abdulkadir Jailani - Director for Treaties on Economic, Social, and Cultural Affairs, Republic of Indonesia

Mr. Jailani started off by emphasizing that the TPP covers a huge scope of issues and it was not merely about international trade. To assess the impacts of the TPP, Mr. Jailani identified some follow-up actions that were required by Indonesia from a political, economic and legal aspect.

From the political perspective, the TPP was described as an ambitious, comprehensive and high standardized agreement. It not only regulates trade but also covers the issues of environment, labor and other domestic affairs. Mr. Jailani argued that the agreement was an American-driven process and that it also had no direct relations with the ASEAN Economic Community (AEC), which was currently one of Indonesia's priorities. Unlike the RCEP, the TPP excluded China's participation. As has been articulated by the United States' President, Barack Obama, "If we don't write the rules, China will write the rules."

Mr. Jailani elaborated further from the economic aspects. He pointed out that the TPP contributed 36% of the total global economy and one-third of world trade. These figures gave us a glimpse of the TPP's potential for market expansion. However, as Mr. Jailani noticed, the TPP would not automatically create a freer market. Instead, the agreement will create a more regulated trade, thus resulting in a complex market access.

Similar to the other two aspects, Mr. Jailani argued that the TPP also applied a high standard of rules when it came to legal aspects. This would require that many of Indonesia's laws and regulations be revoked or amended. Moreover, the TPP also gives powers to companies to submit legal suits against governments and bring cases to international arbitration. Mr. Jailani went on to point out that before the TPP came into force, there was little that Indonesia could do. All involved countries needed to discuss the terms and condition during the accession process and it also requires the approval of Parliament.

Mr. Jailani also noted some of the TPP chapters that require further attention. First, the investment chapter which mentions the expanding scope of investment objects and the Investor State Dispute Mechanism (ISDM). Second, the intellectual property rights chapter which would present a huge challenge for Indonesia, as TPP puts stricter regulations on copyrights infringement. Third, on State-Owned Enterprises, the TPP prohibits the government from giving special treatments or non-commercial assistance to state-owned enterprises. Lastly, the TPP commits to regulate the environment aspects of trade.

For his conclusion, Mr. Jailani recommended that the government's intention to join TPP has to be followed by some concrete actions. Indonesia also needs to conduct a comprehensive cost and benefit analysis of the overall aspects and broader contexts. Related to the legal aspects, the government needs to be able to identify which rules to amend and they also need to consider the domestic political aspect. Ultimately, Mr. Jailani believed that Indonesia has a lot of time to prepare as the TPP will only come into force in two or three years time.

"The TPP applies a high standard of rules when it came to legal aspects. This would require that many of Indonesia's laws and regulations be revoked or amended."

- Abdulkadir Jailani -

SPEAKERS' PRESENTATION

— Dr. Berly Martawardaya



Dr. Berly Martawardaya - Department of Economics, Faculty of Economics and Business, University of Indonesia

Dr. Martawardaya began his presentation by explaining the nature of both the RCEP and the TPP. He mentioned that the RCEP is an ASEAN-led initiative involving the ASEAN+1 FTA partners. In contrast, the TPP is led by the United States in accordance with their foreign policy objective of pivoting towards Asia.

He then continued to review some of the important figures to provide some basic information about Indonesia's trade value with other countries. In terms of export values from Indonesia to TPP countries, the United States holds the largest numbers ahead of Canada, Chile and Peru. However, when compared to other selected countries, China's number is beyond that of the United States, the European Union, Russian Federation and Japan. The same trend also applies in the imports value to Indonesia from TPP countries.

On the other side, a negative trend was seen in the investment proportion to Indonesia from TPP countries. While it reached the highest level in 2012, the percentage seems to drop in the period of 2013 and 2014.

Dr. Martawardaya also mentioned the challenges that each of the agreements poses. The RCEP is considered uncertain in implementation, since the agreement should be finished in 2015. Unfortunately to this day, the negotiation progress was unpromising. Disputes between Japan and China might also affect the outcome of the RCEP negotiations according to Dr. Martawardaya. Meanwhile for the TPP, the challenges lie on the intervention of Indonesia's market regulation and the economic prospects of participating countries.

On the next part of his presentation, Dr. Martawardaya reviewed the existence of RCEP and ASEAN centrality. He noticed that only ASEAN can bring many countries together in one agreement. Therefore, ASEAN can influence the term of RCEP agreement.

Finally, Dr. Martawardaya stated that once TPP is set, all parties need to accept the provisions. Indonesia has to consider this since the country's export still depended on raw materials and mining which is declining in demand. Dr. Martawardaya concluded by saying that in the RCEP, Indonesia and ASEAN play a crucial role in determining the terms of the agreement.

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- Dr. Berly Martawardaya -

Q&A SESSION



Fina Astriana - Researcher, ASEAN Studies Program, The Habibie Center

Comment No.1

Has the government set a timeline to prepare Indonesia for joining the TPP?

Comment No.2

Do you agree if before joining TPP, Indonesia has to settle an agreement first with the EU first?

Comment No.3

The investors are worried about the impacts of the TPP on them, whether they have to stay in Indonesia or relocate somewhere else. Would TPP cause trade diversions or would it affect the existing bilateral agreements?

Mr. Wijayanto Samirin

Several government institutions have conducted research on the TPP and further decision will be made from this data. The government has also been trying to provide a better environment to make the investor comfortable in all of the different sectors, not only in the manufacturing one. We would tell the investors that the TPP

will boost the value-added by being more export-oriented. As for the EU and Indonesia trade agreement (EU-CEPA), it is progressing slowly but we have been referring to Vietnam and EU-CEPA agreement to help settle the Indonesia one.

Mr. Abdulkadir Jailani

The president mentioned about his 'intention' in joining the TPP so there needs a further study to evaluate this agreement's impact to Indonesia. Regarding the timeline, it is difficult to tell because we don't know when it will be in force. Next year, all parties will sign it but then it has to go to all of TPP countries' parliaments for ratification. Not to mention the dynamics within the United States itself where most of the Congress members are uncomfortable with it. The TPP should enter into force when the signatories (a minimum of six) ratify the agreement within two years. We don't know if we could pass this threshold in two years. We also have no power to negotiate yet as we haven't entered to force.

The government has also committed to resume the agreement with EU. EU-CEPA is considered a stepping stone for Indonesia before joining TPP.

Dr. Berly Martawardaya

There are larger benefits that could be gained domestically through the TPP. We have two years to prepare the whole thing because the TPP has many rules, commitments, while in fact we don't have them yet. On the other side, with the RCEP we will have our leverage because we initiated the agreement.

Comment No. 4

Should we focus more on TPP because it will take a lot of reforms in our national regulation?

First, we need to take a look at all agreements that we're involved. The RCEP is already going

Q&A SESSION

and we have no choice but to continue, while AEC has always been our priority too. On the other side, our role in TPP is minimal. We're not parts of the negotiating party and the only thing we can do is to get prepared. Therefore, to benefit from TPP effectively, we need to adjust our national laws with TPP regulations.

Comment No. 5

Is there any possible impact or threat to ASEAN if Indonesia signs the TPP? And what capabilities should Indonesia have in order to compete?

Comment No. 6

I think it's probably easy for the government to decide which international agreement they would like to sign by identifying the direction that they would like to take. An economy based on self-sufficiency or global value chain?

Comment No. 7

Indonesia has faced many debates prior to the agreement, and once it is forced, how is the possibility of public resistance towards the TPP implementation?

Mr. Wijayanto Samirin

Speaking about the debate between self-sufficiency and global supply chain, I think all countries nowadays are being more pragmatic, that they cannot disconnect themselves from the world. When it is close to elections, nationalistic views suddenly gain popularity to attract voters but at the end of the day everyone recognizes the importance of integrating with the global economy.

In response to the possibility of huge demonstrations following the TPP implementation, I do not think that it will turn into such a big deal. In my experience there are only two major issues that draw people's

attention to march to the street: corruption and labor. Moreover, the majority of the Indonesian people do not care much or know enough about trade agreement.

Mr. Abdulkadir Jailani

I would like to confirm that until today, there is no ASEAN country that has joined RCEP or TPP since they are still at the negotiation stage. I do not think the RCEP will cause a major threat to us because it is an ASEAN-driven process and brings together ASEAN dialogue partners. RCEP also offers a higher degree of liberalization than the AEC.

An economy based on global supply chain is indeed a necessity. However joining the TPP is a whole other thing. We have to be cautious of joining into many forms of trade agreement before we are fully aware of the rules of the game and the benefits that we may earn from being involved. We need to conduct a thorough cost and benefit analysis. A freer market movement is not everything and we need to bear in mind the consequences of regulating new laws and rules here.

The people's resistance will not come from the decision to join TPP but on the issues that follow as a consequence. Joining the TPP means there would be many laws to be amended and legislations to be adjusted. I understand that the TPP provides room for flexibility, but identifying which sectors to be given the privilege is another challenge.

Dr. Berly Martawardaya

Related to Indonesia and EU agreement, the two sides are willing to do it although there will be so many rules to be adjusted. I believe we have plenty of time to do so.

I have to agree that demonstration is not going to be as big as corruption, labor wage or gas and oil price.





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