

# Indonesia and the Regional Comprehensive Economic Partnership

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**R**EGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP) was initiated from an agreement between ASEAN member and its Free Trade Agreement (FTA) partners, namely China, India, Australia, Japan, Korea, and New Zealand. In general, trade cooperation is classified into 2 categories, Free Trade Area (FTA) and Economic Partnership Agreement (EPA). RCEP offers a comprehensive cooperative FTA concept, which is initiated by China and Japan. These two countries dominate previous formulas, such as ASEAN+3, East Asian Free Trade Area (EAFTA) and ASEAN +6 in CEAPA (Comprehensive Economic Partnership in East Asia). RCEP has been considered a larger size of FTA, and is predicted to become a beneficial economic partnership agreement.<sup>1</sup> RCEP is likely to generate an integrated market, which would involve more than 3.3 billion population and a combination of gross domestic product (GDP) over

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1 Ömer Orhun Çelikkol, The Implications of New Age FTAs in the Asia-Pacific: TPP and RCEP (Ankara: Uluslararası Ekonomik Sorunlar, T.C. Dışişleri Bakanlığı Balgat, 2013).

U.S. \$ 19.7 trillion. This would represent almost 50 percent of global trade.

For Indonesia, this paper views that enormous trade volume is considered as an opportunity to increase the exports, which will make Indonesia a basis of production. Indonesia's Ministry of Trade suggests that RCEP will increase GDP about US\$ 1516.3 million and better than other FTAs.<sup>2</sup> In the ASEAN+3 region, the growth of GDP is about USD 487.74 million, while in the ASEAN Free Trade Agreement (AFTA) is only about USD 188.05 million. However, RCEP may actually expand the classical issues of Asia's free trade agreements, known as the "Asian noodle bowl of trade agreements," which is a phenomenon of international economic policy that refers to the complication that arises from the application of domestic rules of origin in the signing of free trade agreements across nations .

This study seeks to analyze Indonesia's trade performance using practical competitiveness ability indicators. By analyzing the impact of RCEP to Indonesia, this study seeks to assess whether Indonesia has more competitive products. The common indicators used in this study, as commonly utilized by international trade studies, are Revealed Comparative Advantage (RCA) index. Widodo<sup>3</sup> applied Revealed Symmetric Comparative Advantage (RSCA) and conclude that there have been changes in the patterns of comparative advantage in the ASEAN+3. ASEAN's comparative advantage pattern is becoming similar with that of Japan. Chien<sup>4</sup> concluded that there is positive correlation between South Korea and Taiwan's export products to the US, while pattern of Taiwan's export products to the US is similar to Japan, but not at the same pace of Japan yet. Sanidas and Shin<sup>5</sup> use two main RCA indices and various quantitative techniques in order to systemically and rigorously draw some conclusions regarding the comparative advantage of the three East Asian countries. The study concludes that Japan and Korea are already in the process of converging towards the RCA neutral point,

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2 "Analysis of Regional Comprehensive Economic Partnership (RCEP)'s Arrangement," a report/paper for the Working Group of Trade in Goods (International Trade Cooperation Centre – The Board of Study and Development Trade Policy), 2012.

3 Tri Widodo, "Dynamic Comparative Advantages in the ASEAN+3," *Journal of Economic Integration* Vol. 24(3), 2009.

4 Chen-Lin Chien, "Study of the Change in Export Competitive Advantage of Japan, China, South Korea and Tai-wan in the US Market – Using RCA as the Measurement Index," *The Journal of International Management Studies* Vol. 5(1), 2010.

5 Elias Sanidas and Yousun Shin, "Convergence towards the Reveal Competitive Advantage Neutral Point for East Asia: Similarities and Differences between the Three Countries," *Seoul Journal of Economics* 24(1), 2011.

while China's position is still in the process of divergence. These studies show the pattern of RCA development, which follows the model of Japan. Widodo<sup>6</sup> provide evidence of that pattern, which is known as the Japan "Flying Geese" Model, with unskilled labor-intensive industries and human capital-intensive industries.

## Theoretical Review

There is a dispute regarding whether export triggers economic growth or, on the contrary, that economic growth promotes export. Jung and Marshall<sup>7</sup> have evidence that export can reduce economic growth and vice versa. However, tariff elimination or reduction has impacts on boosting the world trade. Viner's analysis<sup>8</sup> explains FTA's impacts on trade. FTA will deliver benefits if the trade creation is bigger than the trade diversion. Fiscal Policy Office's study showed that AFTA makes more trade creation than trade diversion.<sup>9</sup> Trade liberalization among ASEAN countries, which started in 2003, has enhanced the trade volume of Indonesia, shown by the 100% increase of volume of export and import for the period of 2003-2010. Unfortunately, the increase is followed by a decrease in the trade balance and even deficit since 2005. A study by Pomfret and Pontines<sup>10</sup> in 16 Asian countries using gravity model specification, concludes that bilateral export has positive correlation with foreign exchange depreciation and the membership of regional trading arrangement (RTA) but has negative correlation with foreign exchange volatility. Therefore, the impact of foreign exchange depreciation and volatility is bigger if there is a trade agreement. Kawai dan Wignaraja<sup>11</sup> proved that a decent arrangement of FTA would possibly give benefit to all members, for example the export rise of South Korea, Thailand, Vietnam and Malaysia.

6 Tri Widodo, "Dynamic Changes in Comparative Advantage : Japan "Flying Geese" Model and Its Implications for China," *Journal of Chinese Economic & Foreign Trade Studies* 1(5), 2008.

7 Woo S. Jung and Payton J. Marshall, "Exports, Growth and Causality in Developing Countries," *Journal of Development Economics*, Vol. 18, 1985.

8 Jacob Viner, *The Custom Union Issue*, (NY: Carnegie Endowment for International Peace, 1950).

9 "Free Trade Agreement (FTA) and Economic Partnership Agreement (EPA) - Its Effect to Trade and Investment," A Publication of the Regional and Bilateral Policy Center, Fiscal Policy Office, Ministry of Finance, Indonesia (2012).

10 Richard Pomfret dan Victor Pontines, "Exchange Rate Policy and Regional Trade Agreements," Center for Economic Policy Research (CEPR) London (2013).

11 Masahiro Kawai and Ganeshan Wignaraja, "Policy Challenges Posed by Asian FTAs," Centre for Economic Policy Research (CEPR) London (2013).

Although FTA has existed for over a decade, an empirical study by Menon<sup>12</sup> shows that its impact to the manufacturing sector is not immense. There are at least three reasons. *First*, most of the trade is carried out with zero or lower tariff due to The International Technology Agreement. *Second*, most of the international trade cannot attain the benefit of concession tariffs in FTA since the rules of origin provision could be harmful, due to the limitation in creating/adding the value of product. *Third*, almost all Asian countries in FTA still have constraints with non-tariff barriers. Chirathivat<sup>13</sup> found that both ASEAN and China benefit from net trade of ACFTA. ASEAN countries get a bigger role for supplying raw materials and intermediate goods to China. Both tariff and non-tariff liberalization give rise to export–import between ASEAN and China. Laurenceson<sup>14</sup> also found that ASEAN - China integration have reached a high level for good and services trade. This implies that ACFTA's impact could be very limited. Empirical analysis by Voon dan Yue<sup>15</sup> showed that China had better competitive advantage than ASEAN in the manufacturing goods export to the U.S., which increased after Asia's financial crisis. Wong dan Chan<sup>16</sup> also proved that China is a threat for ASEAN because China has the manufacturing value chain from labor intensive to capital and technology intensive. Meanwhile, Liu and Luo<sup>17</sup>, by using a market share model, found that Singapore is the only country that is ready for trade competition of manufacturing goods with China.

Several studies about FTA's impact to Indonesia concluded that ACFTA is likely disadvantageous for Indonesia's national interest. Latif Adam<sup>18</sup> claimed that Indonesia's products are getting more inferior than China's product, shown by various indicators of trade pattern and export-

12 Jayant Menon, "Can FTAs Support the Growth or Spread of International Production Networks in Asia?," Working Paper No. 2013/06, Australian National University (2013)

13 Sutiphand Chirathivat, "ASEAN-China Free Trade Area: Background, Implications and Future Development," *Journal of Asian Economics*, 13(5), 2002

14 J. Laurenceson, "Economic Integration Between China and the ASEAN-5". *ASEAN Economic Bulletin* 20(2), 2003.

15 J. Voon and R Yue, "China-ASEAN Export Rivalry in the US Market: The Importance of the HK China Production Synergy and the Asian Financial Crisis," *Journal of the Asia Pacific Economy*, Vol. 8 (2), 2003.

16 J. Wong and S. Chan, "China-Asean Free Trade Agreement: Shaping Future Economic Relations," *Asian Survey*, 43(3), 2002.

17 Y. Liu and H. Luo, "Impact of Globalization on International Trade between ASEAN-5 and China: Opportunities and Challenges," *Global Economy Journal*, 4(1), 2004.

18 Latif Adam. *ACFTA dalam Perspektif Hubungan dagang Indonesia China*. Online at <http://inspirasiabloid.wordpress.com>

import trend. Muslikhati and Kaluge<sup>19</sup>, using the Granger test approach, confirmed that Indonesia–China’s trade for the period 1990–2009 resulted in positive causality between net export and economic growth in China, but not for Indonesia. The growth of Indonesia’s net export has positive causality with economic growth but not for the other direction.

The weak competitiveness of Indonesian export commodities, as discussed in World Economic Forum 2013, is due to technical inefficiency in the manufacturing sector. Some macroeconomic indicators, such as inflation and country credit rating, are still lower than other ASEAN countries, although Indonesia’s macroeconomic environment is relatively in good condition. In Indonesia’s case, the competitiveness of commodities is influenced by economic and development policy, particularly for the industrial (manufacturing) sector. Pangestu et al<sup>20</sup> stated that economic and development policy could not be separated from previous crucial events. Policy setting in the industrial sector, specially the manufacturing sector, led to the high level of concentration on some companies (oligopolistic). Adji<sup>21</sup> has the same opinion, inadequate competitiveness of the manufacturing sector was triggered by government policies and consequently created the oligopoly market. Hence, they have market power over the price, which could be harmful to the consumer. Such policies of prioritizing big companies over the small ones started since the shift of industrial strategy from inward looking to outward looking, which has led to inefficient market structure, such as monopoly or oligopoly market. Pradiptyo<sup>22</sup> stated that such government policies mostly occurred in the non-fuel manufacturing sector. As the consequences, Indonesia has high demand of imported raw material. Maman et al<sup>23</sup> disclosed that the vast growth of imported manufacturing product in order to fulfill raw material and capital goods for the period 2001–2011 was a classical problem and could be a barrier in the creation of value-added and manufacturing sector, as it is sensitive to the economic risk, such as exchange rate volatility

Numerous studies have revealed the weak competitiveness and

19 Muslikhati dan David Kaluge, “Analisis Perdagangan Indonesia Pasca Pemberlakuan ACTA (Studi Komparatif Indonesia-China),” *Jurnal Ekonomi Pembangunan*, Vol 8 No. 2, 2010.

20 Mari E. Pangestu, Haryo Aswicahyono, Titak Anas and Dionisius Ardyanto, “The Evolution of Competition Policy in Indonesia,” *Review of Industrial Organization*, Kluwer Academic, 2002

21 D. Arti Adji, “Industrial Concentration and Price Adjustment : Indonesia Case Study”, *Kelola No. 12/V/96*, 1996

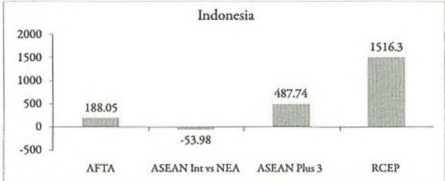
22 Rinawan Pradiptyo, “Dampak Kebijakan Sektor Riil Terhadap Struktur dan Kinerja Struktur Industri Indonesia Tahun 1980-1994,” *Kelola No. 11/V/96*, 1996

23 Maman Setiawan, G. Emvalomatis, and A. Oude Lansink, “Industrial Concentration and Price Cost Margin in Indonesian Food and Beverages Industri,” *Applied Economics*, 44: 3805-3814, 2012

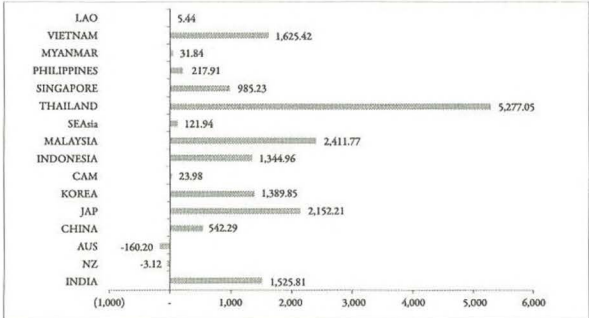
inefficiency of the manufacturing sector in Indonesia. Maman et al<sup>24</sup> explained that the manufacturing sector in Indonesia is highly concentrated among four dominant companies with the average about 0,4 – 0,6 and low level of efficiency for the period 1995-2010. Furthermore, Ikhsan<sup>25</sup> confirmed such explanation.

Nonetheless, Indonesia is likely to join RCEP. The Ministry of Trade argues that RCEP could enhance the social welfare by income increasing about USD 1.516,3 million; much better than ASEAN Plus 3 (about USD 487,74 million) and AFTA (about USD 188,05 million).<sup>26</sup> Using a simulation of the liberalization of 90 percent (with level of deviation only 5%), increasing in social welfare for Indonesia is in the 6th rank after Thailand (USD 5.277,05 million), Malaysia (USD 2.411,77 million), Japan (USD 2.152,21 million), Vietnam (USD 1.625,42 million) and South Korea (USD 1.389,85 million) (see Pictures 1 and 2).

**Picture 1 : The Impact of RCEP to Welfare for Indonesia (USD Million)**



**Picture 2 : The Impact of RCEP to Welfare - Asian Countries (USD Million)**



Source: Data from the Ministry of Trade, Republic of Indonesia, 2013.

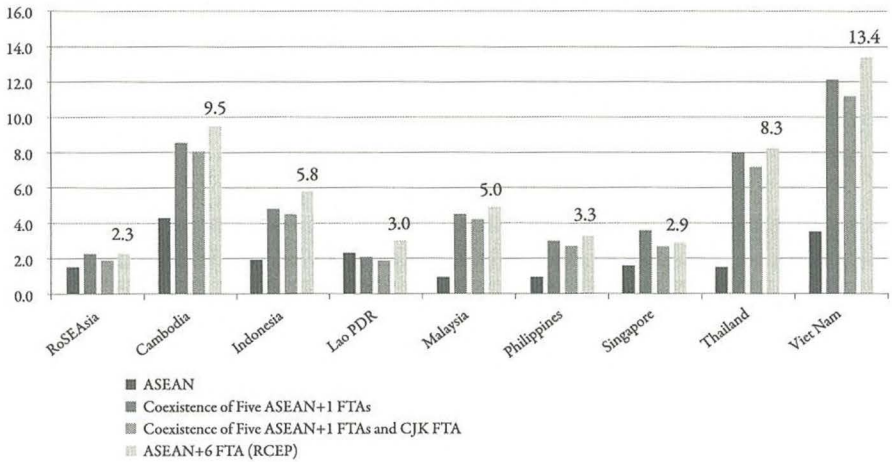
24 Maman Setiawan, G. Emvalomatis, and A. Oude Lansink, “The Relationship between Technical Efficiency and Industrial Concentration: Evidence from The Indonesian Food and Beverages Sector,” *Journal of Asian Economics*, Vol. 23 (4), 2012

25 M. Ikhsan, “Total Factor Productivity Growth in Indonesian Manufacturing: A Stochastic Frontier Approach,” *Global Economic Review* Vol. 36, 2007

26 “Analysis of Regional Comprehensive Economic Partnership (RCEP)’s Arrangement” in the *Working Group of Trade in Goods* (International Trade Cooperation Centre – The Board of Study and Development Trade Policy), 2012.

Meanwhile, a study by Itakura<sup>27</sup>, using GTAP dynamic model for the 2011-2015 period, showed different results. The study showed that RCEP will give benefit to all involved countries, except for Laos. Vietnam, Cambodia and Thailand are the countries to gain the most benefit with GDP growth about 13,4 percent, 9,5 percent and 8,3 percent, respectively, over the baseline. Indonesia will benefit with GDP growth about 5,8 percent (see Picture 4).

**Picture 3 : The Impact of Free Trade Agreements**



Source: K. Itakura, "Impact of Liberalization and Improved Connectivity and Facilitation in ASEAN for the ASEAN Economic Community", *ERLA Discussion Paper 2013-01*, 2013

## Methods and Result

Revealed Comparative Advantage (RCA) index indicates the export market share of *i* industry (or product) of a country in the world, averaged by that country's total export share of the world's total countries' export. Utkulu and Seymen<sup>28</sup> used nine different types of RCA measurement method as the basis of their analysis, and used the correlation coefficients to test Turkey's exports to the European economic entity from 1990 to 2003

<sup>27</sup> K. Itakura, "Impact of Liberalization and Improved Connectivity and Facilitation in ASEAN for the ASEAN Economic Community", *ERLA Discussion Paper 2013-01*, 2013.

<sup>28</sup> Utku Utkulu and Dilek Seymen, "Revealed Comparative Advantage and Competitiveness: Evidence for Turkey vis-à-vis the EU/15," paper for the European Trade Study Group 6th Annual Conference, ETSG, Nottingham, 2004

to see whether customs' unions had any significant comparative advantage and competitive effects on a trade model and to explore the stability of the nine RCA measurement methods. One method is the *Dynamic Revealed Comparative Advantage*, which is used by Edwards dan Schoer<sup>29</sup> to analyze the structure dan trade competitiveness of South Africa. Regarding the significance and model of RCA, variation rate and correlation coefficient, function and limitation are explained respectively as follows:

$$RCA_{ij} = (X_{ij}/X_{wj}) / (X_i/X_w)$$

$X_{i,j}$  = the export value of  $j$  country's  $i$  industry (comodity)

$X_w$  = the total import value of  $j$  to the world market

$X_i$  = the total export value of country's  $i$  industry (comodity)

$X_w$  = the total import value of the world

According to the general definition, measuring the comparative strength and weakness of export competitiveness of a country's industry can be described as follows:  $RCA > 2,000$  means an industry has extremely strong export competitiveness; while  $1,000 < RCA < 2,000$  means an industry has strong export competitiveness; and  $500 < RCA < 1,000$  means an industry has weak export competitiveness;  $RCA < 500$  means an industry having extremely weak export competitiveness. Edwards and Schoer provide a matrix to analyze the competitiveness of products in the evaluation process as follows :

**Table 1: Export Competitiveness Matrix**

	Share $j$ to export country		Share $j$ to export market	Position
RCA up	↑	>	↑	Rising Star
	↑	>	↓	Falling Star
	↓	>	↓	Lagging Retreat
RCA down	↓	<	↑	Lost Opportunity
	↓	<	↓	Leading Retreat
	↑	>	↑	Lagging Opportunity

Source : Edwards and Shoer (2001)

29 Lawrence Edwards dan Volker Schoer, "Measures of Competitiveness : A Dynamic Approach to South Africa's Trade Performance in the 1990s," *South African Journal of Economics* 70(5), 2002



The advantages using dynamics RCA are : (i) it can describe RCA along the time; and (ii) it can find out the position of product to importing countries; those indicators are classified into their position in the market. The dynamics RCA is more useful than static RCA, because this tool can identify which product has more expansive or narrower market. The dynamics RCA is more informative in explaining the competitiveness of export products.

This study, using dynamics RCA and Standard International Trade Classification Rev. 4 (SITC4) data, elaborates the competitiveness of Indonesian export product among 16 countries (members) of RCEP. The data was divided into Standard International Trade Classification (SITC) one-digit codes to examine broader export patterns, which include agriculture (SITC 1 to 4) and chemicals (SITC 4). The sectors to be scrutinized are agricultural raw materials, food, fuels, manufactures, ores and metals. This paper looks at three scenarios: (1) the competitiveness of Indonesia's export-import among 16 members of RCEP; (2) the competitiveness of Indonesia's export-import among 16 members of RCEP, including import from rest of the world to RCEP members; and (3) the competitiveness of Indonesia's export-import to the world. These scenarios can describe the destination of Indonesian export, whether concentrated to RCEP countries or more.

The outcome of the first scenario is presented in Table 4, which shows that the competitiveness of Indonesia's export-import among 16 members of RCEP tends to decline for the period 2001-2012. Statistics also show that variation of the export commodity decreased for the period 2001-2011 (from 1000 to 720) but increased to 866 in 2012. The decrease of Indonesian commodity's competitiveness is due to both tariff barrier and non-tariff barrier factors. For example, European customers tend to add non-economic restrictions for import products, such as environmental friendly standards.<sup>30</sup> Nonetheless, this condition is also suffered by other RCEP members with better economic condition, including Australia, Japan, South Korea and Singapore. The total of RCEP members' commodities variation competitiveness declined from 12.147 to 12.016 (121 commodities) for the period 2001-2001. Meanwhile, in contrast, some countries were able to increase their commodities variation, for example China for 529 commodities, Malaysia for 90 commodities, Philippine for 63 commodities and Thailand for 187 commodities.

30 See, for example, Makmun Syadullah, "Towards Green Economy", (Yogyakarta, UIH Press : 2011)

**Table 4: The Competitiveness of Indonesia's Export-Import among 16 Members of RCEP - Simulation of Scenario 1**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Λ_Australia	1,106	1,129	1,106	1,031	948	885	867	710	676	640	567	639
Λ_China	2,171	2,282	2,306	2,425	2,525	2,612	2,642	2,627	2,581	2,666	2,700	2,749
Λ_India	1,254	1,300	1,310	1,294	1,212	1,106	1,195	1,191	1,063	1,012	1,073	1,163
Λ_Indonesia	1,000	1,084	1,066	1,098	995	950	1,034	1,010	1,032	768	720	866
Λ_Japan	1,807	1,801	1,703	1,669	1,688	1,694	1,567	1,545	1,577	1,495	1,530	1,541
Λ_Korea	1,261	1,309	1,243	1,184	1,128	1,068	1,009	1,014	1,041	990	1,001	969
Λ_Malaysia	916	934	954	999	969	1,003	1,111	1,135	1,082	1,057	1,006	1,087
Λ_Philippines	402	438	396	415	418	419	388	422	457	434	465	638
Λ_Singapore	1,182	1,177	1,289	1,225	1,215	1,165	1,113	1,207	1,155	1,107	1,105	1,092
Λ_Thailand	1,048	1,071	1,102	1,115	1,126	1,147	1,257	1,250	1,195	1,181	1,235	1,272
Λ_Vietnam	596	735	798	752	758	837	892	843	943	966	967	-

Table 4 shows that Indonesia's competitiveness of became worse. According to Industrial Development Report 2011, Indonesia's manufacturing competitiveness declined from 40 to 43 for the period 2005-2009. If we compare with other ASEAN countries, for example Singapore, Thailand, Malaysia and Philippines, Indonesia's Competitiveness Industrial Performance (CIP) is below those countries.

Among RCEP members, China is the most well-prepared country in facing free trade era. China has the advantages of export-oriented economic strategy (outward looking), extraordinary level of domestic saving and investment in human resources. China, together with South Korea, conduct selective market interference to drive the increasing of industry and diversification.<sup>31</sup>

Looking at the competition among RCEP members, this paper suggests that Indonesia needs to enhance the efficiency and effectiveness of its manufacturing sector, create conducive business conditions, expand access to markets, and develop the expertise in information and communication technology including marketing promotion. Otherwise, Indonesia would simply become the market for RCEP members' commodities. A good example can be taken from India as one of the successful countries in entering the industrial stage of economic development. India took a leap in export services by building supporting physical infrastructure for

31 S. Iall, "Competitiveness, Technology and Skills," (Cheltenham, UK and Northampton, MA, USA: Edward Elgar, 2001)

industry sector and transforming its low productivity agricultural sector to the manufacturing value added sector.<sup>32</sup>

The competitiveness of RCEP members' commodities is still better than the imported goods from rest of the world. It can be observed from Table 5 below, which shows the decrease in the number of commodities (that have high competitiveness) is better than the previous scenario (in Table 4). The numbers indicate the increase of high competitiveness commodities (from 11,524 to 12,404) in the period of 2001-2011. Nonetheless, despite the better competitiveness of RCEP members' commodities, for Indonesia, India and South Korea, their competitiveness decline slightly; and worse for Australia, whose competitiveness declines sharply.

**Table 5: The competitiveness of Indonesia's Export-Import\* among 16 Members of RCEP, Including Import from Rest of the World - Simulation of Scenario**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
A_Australia	892	914	968	897	811	741	741	613	565	523	466	498
A_China	1,968	2,078	2,119	2,204	2,323	2,440	2,438	2,460	2,402	2,515	2,545	2,641
A_India	1,178	1,211	1,260	1,247	1,151	1,097	1,151	1,159	1,031	1,012	1,097	1,169
A_Indonesia	984	1,024	1,059	1,125	998	994	1,035	1,021	1,002	845	824	953
A_Japan	1,475	1,462	1,447	1,464	1,491	1,533	1,437	1,482	1,468	1,470	1,489	1,533
A_Korea	1,158	1,181	1,134	1,109	1,109	1,063	1,029	1,036	1,026	1,010	1,033	1,064
A_Malaysia	867	874	904	953	946	1,016	1,080	1,122	1,036	1,071	1,066	1,110
A_Philippines	402	420	384	394	411	427	402	434	453	404	481	601
A_Singapore	929	977	1,152	1,082	1,059	1,037	1,004	1,122	1,043	995	1,026	1,040
A_Thailand	1,073	1,107	1,096	1,150	1,164	1,207	1,303	1,290	1,237	1,242	1,314	1,358
A_Vietnam	598	754	837	776	781	879	940	918	981	1,049	1,063	-

The commodities from RCEP members have higher competitiveness than other countries outside RCEP, and tend to get better every year in the international trade. The total variation of RCEP region's commodities reached 10,042 in 2001 and increased to 10,130 in 2011. Comparing Table 4 with Table 5, there is an indication that several RCEP members have more trades with countries in other regions. For instance, Indonesian export commodities decline by 134 commodities, while for the international trade only decline by 97. So, the establishment of RCEP has not been able to boost Indonesia's exports in the short term, because Indonesia has more

32 "India: The growth imperative," McKensey Global Institute, October 2001

trade with countries outside the RCEP region.

The third scenario illustrates the competitiveness RCEP members in the world, and the result of the simulation is shown in Table 6. The decrease in the number of commodities that have high competitiveness are similar to the result of the second scenario (Table 5). This indicates that all RCEP member is relatively strong in competing with all countries, with the exception for Australia. Despite having good economic condition, the competitiveness of Australia's export products are even worse compared to the previous scenarios. Australia is the only country that has extremely weak export competitiveness among RCEP members.

**Table 6: The Competitiveness of Indonesia's Export-Import to the World - Simulation of Scenario 3**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
A_Australia	649	676	676	599	521	507	477	367	354	332	294	328
A_China	1,760	1,847	1,848	1,942	2,005	2,086	2,073	2,078	2,093	2,172	2,242	2,298
A_India	1,056	1,111	1,119	1,072	969	886	999	1,011	871	815	868	970
A_Indonesia	798	874	877	926	821	807	899	899	943	655	615	701
A_Japan	1,403	1,393	1,354	1,337	1,378	1,364	1,292	1,289	1,331	1,267	1,299	1,332
A_Korea	1,033	1,054	1,013	981	959	916	896	896	892	890	876	897
A_Malaysia	701	726	747	766	757	760	883	902	818	811	817	900
A_Philippines	337	370	346	360	359	385	341	366	390	360	413	592
A_Singapore	858	885	972	906	870	833	801	869	845	782	795	796
A_Thailand	908	929	930	947	940	969	1,001	1,008	987	980	1,044	1,070
A_Vietnam	539	667	737	650	643	715	773	720	791	843	867	-

The three scenarios show that Indonesia still has weak export competitiveness industry. Nonetheless, Indonesia's export products can still compete globally, and Indonesia has more trade with countries outside the RCEP region. Indonesia's position in international trade is shown in Table 7. Observing Table 7, and referring back to Table 1, Indonesia could be classified as a "lost opportunity."

**Table 7: Indonesia's Position in International Trade**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Table 4 (*)	1,000	1,084	1,066	1,098	995	950	1,034	1,010	1,032	768	720	866
Table 5 (**)	984	1,024	1,059	1,125	998	994	1,035	1,021	1,002	845	824	953
Table 6 (***)	798	874	877	926	821	807	899	899	943	655	615	701

Note :

- (\*) The competitiveness of Indonesian export-import among 16 members of RCEP
- (\*\*) The competitiveness of Indonesian export-import among 16 members of RCEP (including import from rest of the world)
- (\*\*\*) The competitiveness of Indonesian export-import to the world

## Conclusion and Recommendations

The Regional Comprehensive Economic Partnership (RCEP) is aimed at establishing the concept of free trade area with a comprehensive binding cooperation. RCEP is a combination of ASEAN +3 in the East Asian Free Trade Area (EAFTA) and ASEAN +6 in CEAPA (Comprehensive Economic Partnership in East Asia). This new concept is expected to create an integrated market that includes more than 3.3 billion population with a predicted total gross domestic product (GDP) of more than US\$ 19.7 trillion (roughly 50% of global trade).

Indonesia's exports have increased for the period 2007-2011, but are still dominated by primary goods based on natural resources, such as energy sector products and mineral resources, food and beverage sector (particularly palm oil export sector and forest products), and plantations (especially rubber, pulp and paper, and plywood). On the other hand, exports of manufacturing sector such as electronics, derivation of chemical products and textile products declined in the market share due to the weakening of the competitiveness of the manufacturing sector. At the same time, the increase of manufactured import products, include capital goods and raw materials, could damage Indonesia's added value and reduce the growth of industries.

Trade liberalization is expected to increase Indonesia's GDP, including the rise of investment and household welfare. For instance, AFTA establishes more trade creation than trade diversion. However, Indonesia's benefit from trade liberalization is relatively smaller than other ASEAN countries. The result of this study's simulation for full liberalization of the ASEAN region shows a positive impact on the increase in the volume of Indonesia's trade, both exports and imports. However, the percentage of the import increase is higher than the percentage of the export increase; thus, as the result, there is a negative effect to the trade balance of Indonesia.

The result of dynamics RCA shows that the overall competitiveness of Indonesian export products declined for the period of 2001-2012. The rapid decline largely took place during 2010-2012, which is the same for the period of 2005-2006. The decline in export competitiveness occurred

in the other RCEP members too, with Australia suffering worst, followed by Japan and South Korea. Singapore and India are relatively more stable, as both countries successfully went through the industrial stage by building the physical infrastructure to support the industry and removing barriers to the manufacturing sectors' growth.

For Indonesia, the competitiveness of Indonesia's export products rapidly declined for the last three years, which indicates the problems in the performance of domestic economy. This study argues that the main aspect of the decline is not the demand side; rather, the supply side. The decrease in Indonesia's export, followed by dramatic increase in its import, has resulted in deficit trade balance.

This paper suggests that refusing the RCEP idea is not answer. Indonesia has joined AFTA, and the cooperation expands to other countries including China, Japan, South Korea, India, Australia and New Zealand. Indonesia should not miss the opportunities to establish trade with lower tariff with China, Japan, South Korea, India, Australia and New Zealand. The competitiveness of Indonesia's export products increased for the period 2007-2009, and it is very likely to achieve such increase again. For that, Indonesia needs excellent fiscal policy to support the sustainability of domestic manufacturing sector, including an inward-looking industry or diversification and the enhancement the value of export product. Nonetheless, Indonesia needs to reduce the speed of the FTA's expansion.