



**DEZAN SHIRA & ASSOCIATES**

Your Partner for Growth in Asia

# The RCEP Advantage

## Part 3: New Trade Opportunities in Indonesia

Webinar | May 17, 2022 | Tuesday | 5 PM Singapore Time | Dezan Shira & Associates





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1992

Dezan Shira's establishment

400+

Our **team** of legal, tax, accounting, business intelligence and audit professionals

3,000+

Multinational **clients** that have already chosen us

80+

**Countries** served by our professional services

25

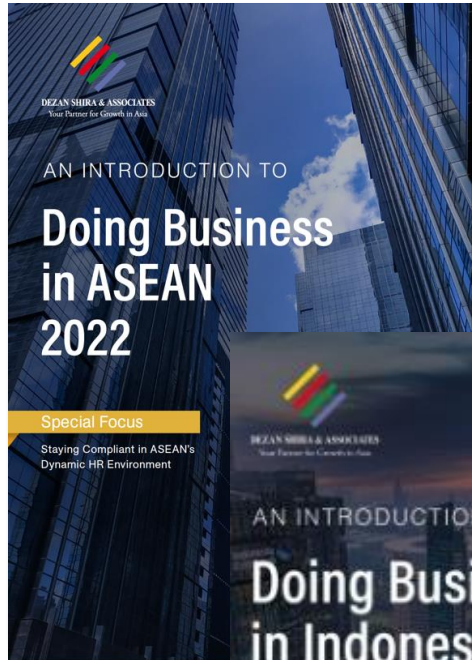
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# What is RCEP?

- The Regional Comprehensive Economic Partnership (RCEP) is an agreement between the member states of the Association of Southeast Asian Nations (ASEAN) and its free trade agreement (FTA) partners.
- The pact aims to cover trade in goods and services, intellectual property, etc.
- Member states of ASEAN and their FTA partners are **Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam, China, Japan, India, South Korea, Australia and New Zealand.**
- The RCEP includes a mix of high-, middle-, and low-income countries.



# What is the objective of RCEP?

- expected to eliminate about 90% of the tariffs on imports between its signatories
- would offer significant economic gains for signatory nations:
  - boost post-pandemic economic recovery
  - "pull the economic center of gravity back towards Asia"
- other reactions were neutral or negative
- RCEP is intended to reduce tariffs and red tape
- RCEP includes unified rules of origin throughout the bloc, which may facilitate international supply chains and trade within the region
- RCEP prohibits certain tariffs. It does not focus on labor unions, environmental protection, or government subsidies
- RCEP does not establish unified standards on labor and the environment
- RCEP does not commit countries to open services and other vulnerable areas of their economies



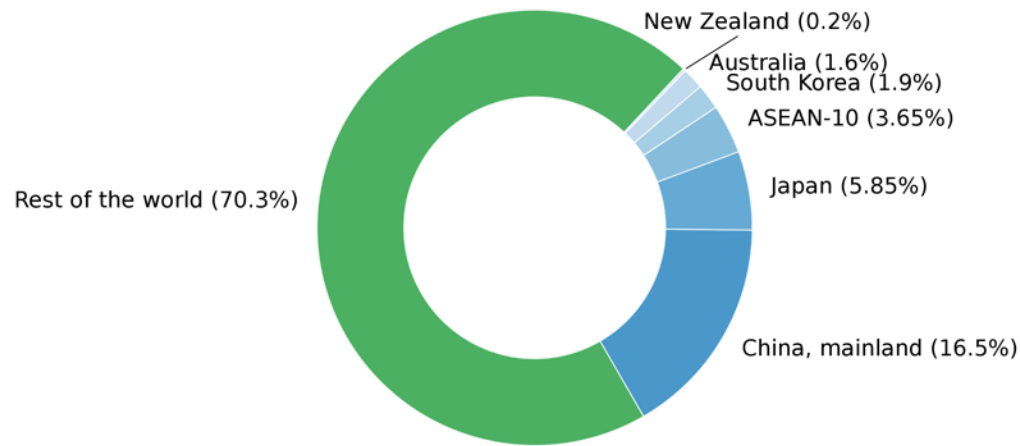
# RCEP – A Timeline

- **2011:** Envisioned at 2011 ASEAN Summit in Bali, Indonesia,
- **2012:** Negotiations formally launched during the 2012 ASEAN Summit in Cambodia.
- **2020:** The treaty was formally signed on 15 November 2020 at the virtual ASEAN Summit hosted by Vietnam.
- **2022:** For the first ten ratifying countries, the trade pact took effect on 1 January 2022. As of 17 January 2022, 7 of the 10 ASEAN and all 5 of the non-ASEAN signatories have signed
- **2023:** Any other country or separate customs territory in the region can accede to the pact from 18 months after the date of entry into force of the pact i.e. from 1 July 2023.



# Why is RCEP important?

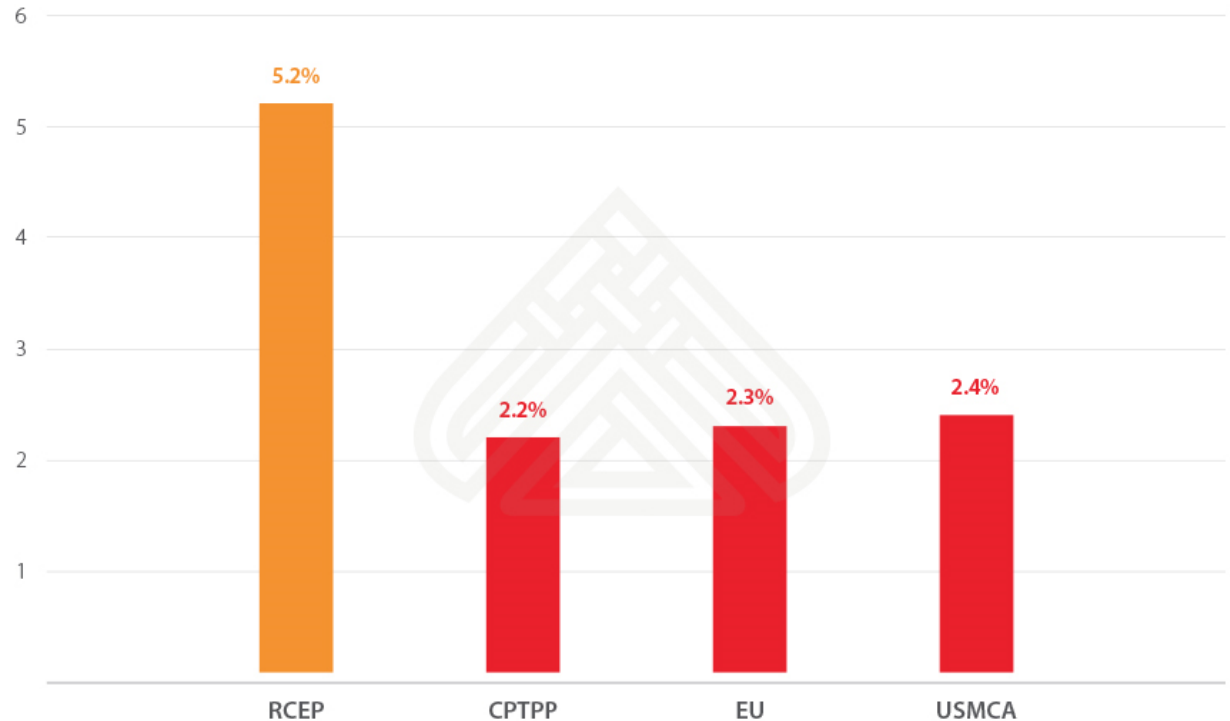
The 15 member countries account for about **30% of the world's population** (2.2 billion people) and **30% of global GDP** (\$29.7 trillion), making it the largest trade bloc in history.



2020 RCEP-15's share of global GDP (%)

## Average Economic Growth Rate of Member Countries of Major International FTAs
















Average economic growth rate (2015-2019)



*Note: The average economic growth rate is the GDP growth rate (from 2015 to 2019) weighted by the PPP GDP data of each country.  
Source: KPMG*

Graphic© Asia Briefing Ltd.

# RCEP Member States

Flag	Country	Capital	Area (km <sup>2</sup> )	Population	PPP GDP (millions USD)	PPP GDP per cap. (USD)	Trade (% of GDP)	HDI
	Australia	Canberra	7,692,024	25,698,300	1,296,075	50,817	44	0.944
	Brunei	Bandar Seri Begawan	5,765	459,500	33,756	76,567	110	0.838
	Cambodia	Phnom Penh	181,035	15,626,444	69,884	4,022	124	0.594
	China	Beijing	9,596,961	1,400,050,000	25,102,916	18,158	35	0.761
	Indonesia	Jakarta	1,910,931	263,510,000	3,481,107	12,432	33	0.718
	Japan	Tokyo	377,930	126,760,000	5,545,884	42,860	31	0.919
	South Korea	Seoul	100,210	51,709,098	2,127,164	39,446	69	0.916
	Laos	Vientiane	236,800	7,123,205	53,626	6,115	75	0.613
	Malaysia	Kuala Lumpur	330,803	32,273,000	988,993	28,636	116	0.81
	Myanmar	Naypyidaw	676,578	54,836,000	362,969	6,360	54	0.583
	New Zealand	Wellington	270,467	4,786,710	195,103	38,706	44	0.931
	Philippines	Manila	300,000	109,048,269	951,224	8,270	58	0.718
	Singapore	Singapore	719	5,703,600	578,204	101,376	321	0.938
	Thailand	Bangkok	513,120	68,298,000	1,296,095	17,749	98	0.777
	Vietnam	Hanoi	331,699	96,208,984	1,016,475	10,537	208	0.704



## 43 of the World's 100 Most Populous Cities are in RCEP

Rank	Name	Country	2022 Population
1	Tokyo	Japan	37,274,000
3	Shanghai	China	28,516,904
8	Beijing	China	21,333,332
10	Osaka	Japan	19,059,856
11	Chongqing	China	16,874,740
18	Manila	Philippines	14,406,059
19	Tianjin	China	14,011,828
20	Guangzhou	China	13,964,637
24	Shenzhen	China	12,831,330
29	Jakarta	Indonesia	11,074,811
31	Bangkok	Thailand	10,899,698
33	Seoul	South Korea	9,975,709
34	Nagoya	Japan	9,571,596
36	Chengdu	China	9,478,521
37	Nanjing	China	9,429,381
39	Ho Chi Minh City	Vietnam	9,077,158
41	Wuhan	China	8,591,611
42	Xi'an	China	8,537,646
44	Kuala Lumpur	Malaysia	8,419,566
46	Hangzhou	China	8,044,878
48	Suzhou	China	7,764,499
51	Shenyang	China	7,527,975

Rank	Name	Country	2022 Population
53	Dongguan	China	7,511,851
54	Foshan	China	7,497,263
59	Harbin	China	6,665,951
64	Singapore	Singapore	6,039,577
65	Dalian	China	5,930,140
66	Qingdao	China	5,865,232
67	Zhengzhou	China	5,690,312
68	Jinan	China	5,663,015
72	Yangon	Myanmar	5,514,454
73	Fukuoka	Japan	5,502,591
79	Melbourne	Australia	5,150,766
81	Hanoi	Vietnam	5,067,352
82	Sydney	Australia	5,056,571
84	Changsha	China	4,809,887
88	Urumqi	China	4,710,203
89	Kunming	China	4,657,381
90	Changchun	China	4,616,002
91	Hefei	China	4,496,456
92	Shantou	China	4,490,411
95	Ningbo	China	4,405,292
99	Shijiazhuang	China	4,285,135

## China's Role in RCEP

- RCEP was pushed by China in 2012 to counter TPP
- The US-led TPP excluded China
- However, in 2016 US President Donald Trump withdrew US from TPP
- RCEP now has become a major tool for China to counter the US efforts to prevent trade with Beijing



## India's Role in RCEP



- 2019 India decided against joining RCEP
- PM Modi said *"the present form of the RCEP agreement does not fully reflect the basic spirit and the agreed guiding principles of RCEP. It also does not address satisfactorily India's outstanding issues and concerns in such a situation."*
- Why was India cautious in its RCEP negotiations? - fear in India that its industries would be unable to compete with China and Chinese goods would flood Indian markets
- How could India have gained from signing the RCEP? - A section of Indian industry felt that being part of RCEP would have allowed the country to tap into a huge market.





# RCEP - Indonesia

# Discussed today

- A Glance at Indonesia's Role in RCEP
- Potential Benefits of RCEP to Indonesia and its Attractiveness for Foreign Investment
- Benefitting from Indonesia's Huge Domestic Market





# A Glance at Indonesia's Role in RCEP



The RCEP initiative was first introduced by Indonesia in 2011 when Indonesia was the chair of ASEAN.



The RCEP's negotiations was led by Indonesia, from the outset of the negotiation until the signing of the agreement. Indonesia was appointed by 15 other members as the Chair of the RCEP Negotiating Committee and by 10 ASEAN Member States as ASEAN Coordinator.



When will Indonesia ratify the RCEP?





# Potential Benefits of **RCEP** to Indonesia and its Attractiveness for Foreign Investment



# INDONESIA

## *Facts and Figures*



The world's 7th largest economy in terms of purchasing power parity



4<sup>th</sup> most populous country in the world



The world's largest nickel reserves



GDP of more than \$1 Trillion



Population of 270 million, with more than 50% of the population reside in Java



More than 100 Million internet users



The only ASEAN member in the G20



Demographic Bonus Era in 2020-2035  
44% of Indonesians are aged under 25



Progressive achievement for the Ease of Doing Business rank, in 2019 ranked 73th





# Top 5 Countries Investing in Indonesia

#Rank	Country	Investment Value (Q1 2022)
1 <sup>st</sup>	Singapore	USD 3.6 billion
2 <sup>nd</sup>	Hong Kong	USD 1.5 billion
3 <sup>rd</sup>	China	USD 1.4 billion
4 <sup>th</sup>	Japan	USD 0.8 billion
5 <sup>th</sup>	United States	USD 0.6 billion

*Base metals and transportation, warehousing and telecommunications and utilities were among the sectors taking beneficiaries*

Source: [Investment Coordinating Board of the Republic of Indonesia \(BKPM\)](#)

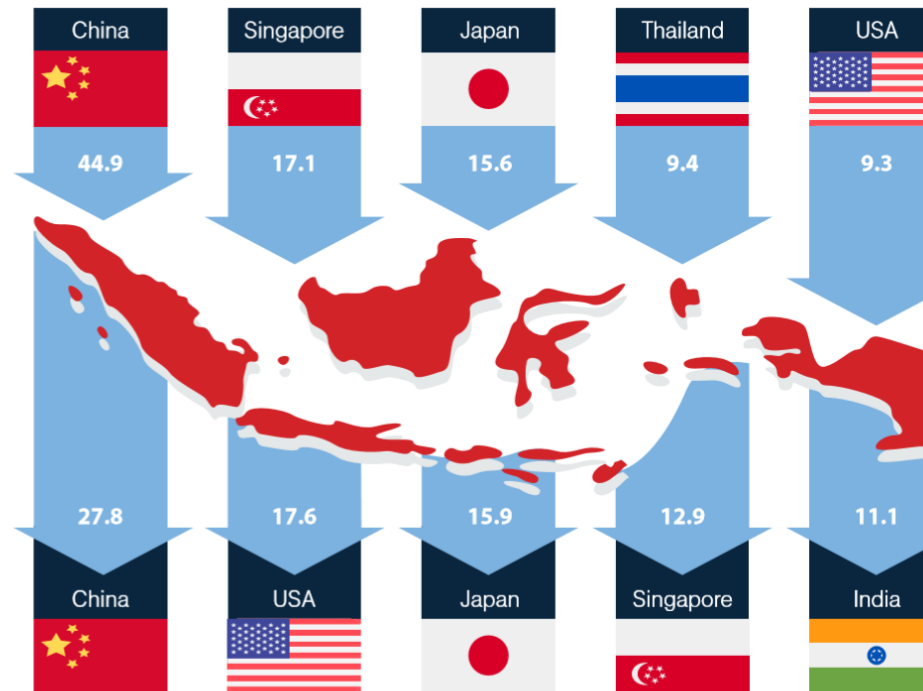


# Top 5 GLOBAL Import & Export Partners (US\$ Billion)

2020



## TOP 5 IMPORT PARTNERS



## TOP 5 EXPORT PARTNERS

*In 2019, 57% of Indonesia's export, valued between USD 84.4 billion for non-oil and gas sector, is going to the other 14 RCEP members, while 66% of Indonesia's import, valued USD 102 billion, is also coming from the same region excluding oil and gas.*

Source: Ministry of Trade

Source: Tradinaeconomics.com

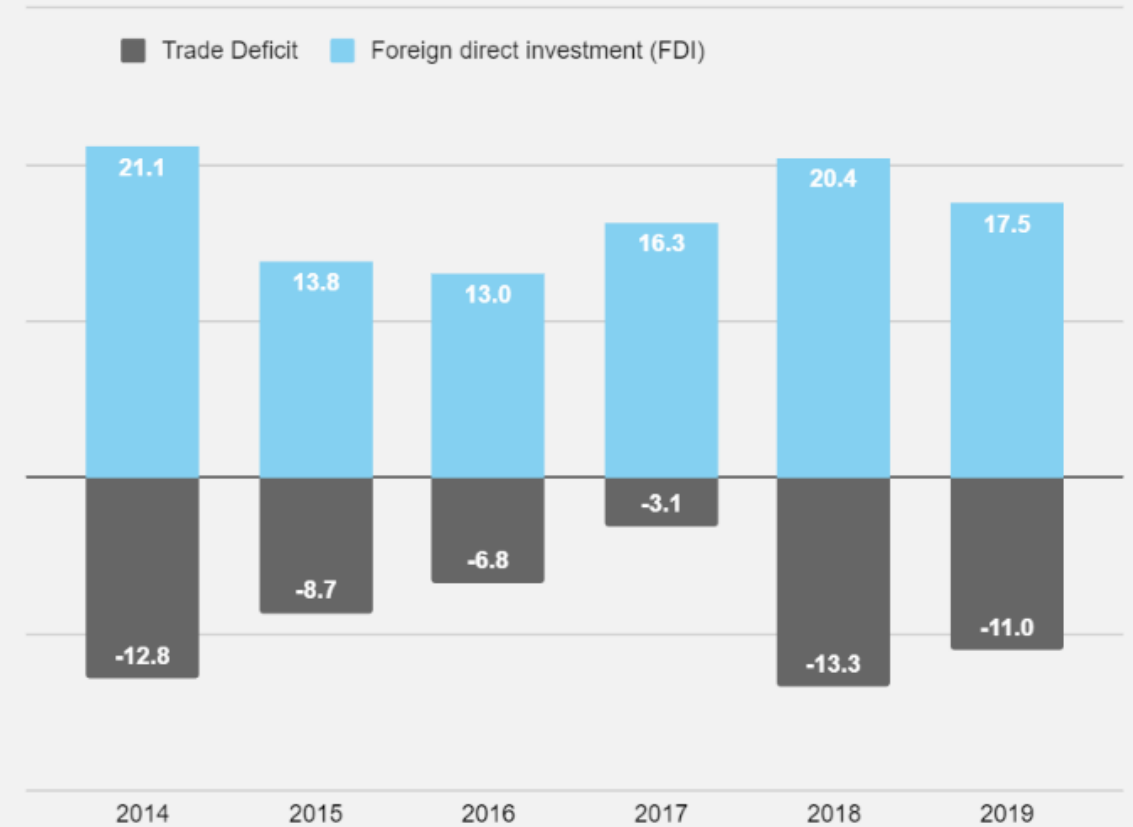


# What Indonesia Loses in Trade, It Gains in Investments

19

- ❖ Indonesia to book a [trade deficit](#) in the early period after implementation, but by 2040, the RCEP could boost the country's trade surplus by US\$979 million.
- ❖ Indonesia could see GDP growth by 0.07 percentage points and an increase in exports and imports by US\$5 billion and US\$4 billion, respectively.
- ❖ *“There is no other way to fully reap the benefits of RCEP, apart from increasing our competitiveness.”*, Agus Suparmanto, Trade Minister of the Republic of Indonesia

Indonesia's trade balance and FDI coming from RCEP signatory countries (in \$ billions)



JG Charts/Dion Bisara

Source: Bank Indonesia, BPS

# World Competitiveness Ranking 2021



## Indonesia

2017	42
2018	43
2019	32
2020	40
2021	37

Source: <https://www.imd.org/centers/world-competitiveness-center/rankings/world-competitiveness/>



# World Digital Competitiveness Ranking 2021



53

<b>Country</b>	Indonesia
<b>2020</b>	56
<b>Ranking Change</b>	+3
	↑

Source: <https://www.imd.org/centers/world-competitiveness-center/rankings/world-digital-competitiveness/>





**02 November 2020**

Enactment of the  
Omnibus Law



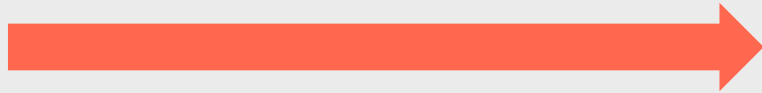
**15 November 2020**

Signing of the RCEP



**Total of Investment Realization**

**9.0%**



**2020**

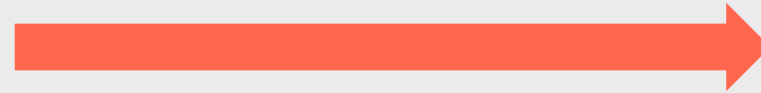
IDR826.3 T

**2021**

IDR901.02 T

**FDI**

**10%**



**2020**

IDR412.8 T

**2021**

IDR454 T

**Top Investment Sector  
2021**

**Metal Industry**

IDR117.5 T

**Top Investment Location  
2021**

**West Java**

IDR59.9 T

# INVESTMENTS IN INDONESIA'S DOWNSTREAM INDUSTRIES

## OPPORTUNITY TO BETTER INTEGRATE INDONESIA INTO REGIONAL VALUE CHAINS

- ❖ RCEP presents an opportunity to better integrate Indonesia into regional value chains and attract investments into its industries, especially manufacturing, which accounts for 20 percent of GDP.
- ❖ The government aims for Indonesia to become a **manufacturing hub** that rivals Germany and South Korea.
- ❖ Indonesia's strength lies in its extensive natural resources and the processing industries associated with them.
- ❖ Membership in the RCEP can incentivize new investments and partnerships to obtain the technology and resources for expanding industrial capabilities and promoting innovation, besides enabling the climb up the value chain.

## INCUBATING EMERGING VALUE CHAINS

- ❖ Indonesia is keen to diversify its manufacturing sector and the RCEP can help transform the country into a producer of high-value products.
- ❖ Incubating new and emerging value chains will be vital if Indonesia wants to increase the contribution of the manufacturing sector to GDP to 25 percent from 20 percent by 2030.
- ❖ Example of emerging value chain in Indonesia is the establishment of an **electric vehicle battery plant**.

Indonesia has significant nickel reserves – approximately 24 percent of the world's reserves – and is a vital component of EV batteries. Grasberg mine located in Papua province, has the second-largest reserve of copper in the world, another key component of EV batteries. When fully operational in 2023, the plant is expected to produce 10-gigawatt hours of lithium-ion battery cells for 150,000 EVs.

# DIGITAL ECONOMY SECTOR

- ❖ Growth of 49 percent in gross merchandise value (GMV) between 2020 and 2021.
- ❖ E-commerce remains the main growth driver showcasing a growth of 52 percent from GMV of US\$35 billion in 2020 to US\$53 billion in 2021.
- ❖ 21 million new digital consumers and 72 percent were from non-metro areas since the start of pandemic, showcasing the growing penetration of the digital economy.
- ❖ A report by Bain & Company, Google, and Temasek predicts that Indonesia's digital economy will have a GMV of US\$146 billion by 2025, the largest in ASEAN.
- ❖ Indonesia is also home to nine tech unicorns, with GoTo — one of the largest — listed on the Indonesian Stock Exchange, raising some US\$1.1 billion in April 2022. By the day's end, GoTo's market capitalization was US\$32 billion.



# COMMODITIES SECTOR

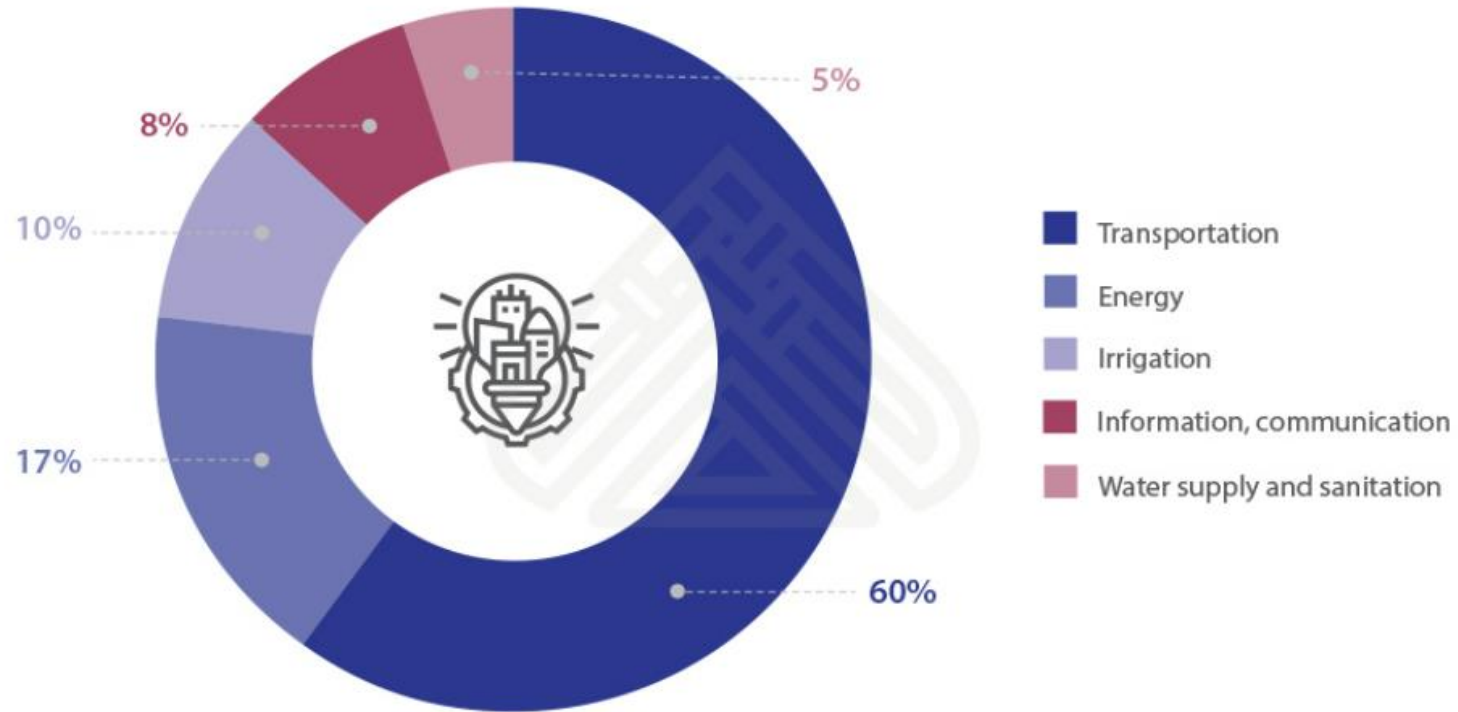
- ❖ The government is planning to *hit the brakes* on the exports of almost all commodities. Unprocessed nickel was banned from being exported since January 2021 and the ban on raw bauxite shipments will begin in 2023, followed by raw tin exports in 2024.
- ❖ In addition to having the world's largest nickel reserves, Indonesia is the second-largest producer of tin, the third-largest producer of coal, and the fifth-largest producer of bauxite. In January 2022, the government imposed a one-month ban on thermal coal exports to avail of a domestic shortage. The ban caused market prices in Asia to jump to US\$160 per ton, but it did protect Indonesian consumers from a surge in energy prices.
- ❖ Further, the government recently stopped the exports of crude palm oil and palm oil products to rein in high domestic prices. Indonesia is the world's largest producer of crude palm oil, accounting for 60 percent of the global share.
- ❖ President Joko Widodo believes that preventing raw material exports until 2024 will triple Indonesia's GDP by 2030.



# BENEFITTING FROM INDONESIA'S HUGE DOMESTIC MARKET

- ❖ RCEP members can benefit from exporting to Indonesia's huge domestic market of over 270 million people. Coupled with 70 million middle-class consumers, some 60 percent of GDP is derived from domestic consumption.
- ❖ Many multinationals have also benefited from having a first-mover advantage in staying compliant with Indonesia's Halal certification laws. The country is the world's largest Halal consumer market with Indonesian Muslims expected to spend US\$247 billion on Halal food and beverages alone by 2025.
- ❖ Other beneficiaries of this spending include Australia's cattle industry. Indonesia imports 500,000 heads of cattle from Australia annually, which comprises of 62 percent Australia's total live cattle exports.

## Indonesia Infrastructure Spending 2019-2024



Source: Bloomberg

Graphic © Asia Briefing Ltd.

- ❖ To fully benefit from the RCEP, Indonesia must continue its infrastructure spending as connectivity issues still plague businesses in the country. Indonesia's non-tariff trade costs with China are higher compared to its peers Malaysia and Vietnam.
- ❖ In 2019, President Joko Widodo announced a raft of infrastructure projects worth US\$400 billion, comprising 25 new airports and the development of over 2,000km of new highways, among others.
- ❖ In addition, the government is building a new US\$35 billion capital city – located in Kalimantan.

# THE OMNIBUS LAW, STRUCTURAL & POLICY ADJUSTMENT

- ❖ Launched in 2020, the Omnibus law amends over 70 existing laws with its primary aim to stimulate domestic and foreign investment by simplifying business licensing requirements, liberalizing industries, and streamlining the labor law, among others.
- ❖ The Law has liberalized over 245 business lines including sectors such as healthcare, aviation, energy, and telecommunications through a positive investment list. Moreover, to maximize tax revenue collection, the Law has overhauled Indonesia's existing tax structure in which local tax residents will only need to use their national identity card as their tax number.
- ❖ Economic development through increasing competitiveness and promoting the growth of value-added industry in the context of the Fourth Industrial Revolution must be prioritized as part of economic recovery. This priority must be considered 'urgent' if Indonesia would like to fulfil the demands coming from domestic and international market, especially from RCEP countries that is predicted to surge after Covid-19 pandemic.
- ❖ To prepare policies that would attract investments for industry focusing on intermediate products. This policy will promote Indonesia's participation in the regional supply/value chain of RCEP, and the global supply/value chain. Intermediate products will serve as the next-step industries both located in Indonesia (to gain added value) and in other RCEP and non-RCEP countries (export).

Source: Center of Indonesian Policy Studies





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