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Beyond Membership: Rethinking Indonesia's Role in the Regional Comprehensive Economic Partnership

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ABSTRACT

This study examines Indonesia's early experience implementing the Regional Comprehensive Economic Partnership (RCEP), applying public policy implementation theory to assess the gap between formal trade policy commitment and its realized economic outcomes. Using panel data from the World Bank covering 2010 to 2023 and a difference-in-differences (DiD) estimation method, the analysis compares Indonesia's performance with both RCEP and non-RCEP member countries across four key indicators: exports as a percentage of GDP, trade openness, foreign direct investment (FDI), and global value chain (GVC) participation. The findings reveal marginally significant increases in Indonesia's exports and trade openness following RCEP implementation. However, there is no statistically significant improvement in FDI inflows or GVC integration. These limited results are further supported by descriptive trends, which show that Indonesia continues to trail behind more industrialized RCEP peers in export diversification and value chain participation. Drawing on policy implementation theory, the study argues that these limited outcomes reflect an implementation gap rather than a design failure of the agreement itself: RCEP membership alone is insufficient to drive substantial economic gains without complementary structural reforms and stronger administrative capacity. Policy recommendations include accelerating industrial upgrading, improving the investment climate, enhancing trade logistics, and supporting SME engagement in export markets. Without these complementary measures, Indonesia risks remaining a passive participant in the region's evolving economic architecture. Continued monitoring and strategic alignment with RCEP provisions will be essential to fully realize the agreement's long-term potential.

1. Introduction

The global economic landscape is currently characterized by rising protectionism and increasing geopolitical fragmentation, making regional trade agreements critical for fostering economic resilience and continued growth. Signed in November 2020 by 15 member countries, including Indonesia, the Regional Comprehensive Economic Partnership (RCEP) is the world's largest free trade bloc, encompassing encompassing 15-member countriesincluding the ten ASEAN nations along with China, Japan, South Korea, Australia, and New Zealand. Moreover, RCEP represents around 30 percent of global gross domestic

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product, international trade, and population (Whitting, 2021). Its main objective is to create a unified regional trade framework by reducing tariffs, simplifying trade rules, and promoting cooperation in key areas such as investment, e-commerce, and intellectual property. By streamlining economic relations among its members, RCEP is expected to enhance competitiveness, strengthen regional supply chains, and improve resilience in the face of global uncertainties.

Indonesia, as Southeast Asia's largest economy and one of the core initiators of RCEP, was expected to benefit significantly from this agreement. The Indonesian government views RCEP as a strategic platform to expand export markets, attract greater foreign direct investment, and integrate more deeply into regional production networks (Damuri and Frimawan, 2022). However, the country's economic profile presents several limitations. Indonesia continues to rely heavily on commodity exports and has yet to develop strong capabilities in high-technology manufacturing. Additionally, regulatory complexity, infrastructure gaps, and governance issues remain persistent challenges. Compared to more agile and industrialized RCEP members such as Vietnam and Malaysia, Indonesia may face greater difficulty in translating RCEP membership into measurable economic gains.

To understand the potential impacts of RCEP, this study is grounded in the theoretical framework of the New Trade Theory (NTT), which posits that free trade agreements (FTAs) can generate dynamic gains beyond simple tariff reductions by enabling economies of scale and fostering product differentiation. By providing a single set of rules of origin and a vast, integrated market, RCEP is designed to facilitate the creation of complex regional supply chains, thereby allowing member states to leverage these core NTT concepts. While FTAs can lead to collective gains, the literature also indicates they can harm domestic industries unable to compete with foreign rivals. This tension between the theoretical benefits of openness and the practical challenge of domestic industrial readiness is a crucial aspect of Indonesia's experience.

Despite the immense theoretical potential of the RCEP agreement, the extent to which it will translate into tangible economic benefits for Indonesia remains an open question. Indonesia has historically been cautious about greater economic openness, and a long history of protectionist measures has at times been in line with public sentiment. Consequently, many of Indonesia's trade agreements, including RCEP, have been described as primarily "paper agreements" that have yet to be fully utilized. Much of the existing literature on RCEP and Indonesia remains descriptive and economics-focused, offering limited insight into why a formally adopted trade commitment fails to translate into measurable outcomes—a gap this study frames as a policy implementation problem rather than a purely economic one. This study seeks to address this gap in the literature by moving beyond descriptive analysis to provide a causal evaluation, informed by public policy implementation theory, of RCEP's initial impact on Indonesia's economy.

Building on this framing, the study asks: to what extent has Indonesia's implementation of RCEP translated formal membership into measurable economic outcomes, and what factors explain the observed gap between policy commitment and realized results? To address this question, the present study examines whether RCEP membership has produced measurable economic impacts for Indonesia, particularly in the short term. Using panel data obtained from the World Bank's World Development Indicators (WDI), this study analyzes the period from 2010 to 2023, covering both RCEP member and non-member countries. This comparative dataset enables the use of a difference-in-differences approach to evaluate Indonesia's post-RCEP performance against its regional peers. The analysis focuses on four key indicators that reflect trade and investment dynamics: exports as a share of GDP, trade openness, foreign direct investment inflows, and global value chain participation. In addition to assessing empirical trends, the study also considers the structural and institutional conditions that shape Indonesia's capacity to utilize the agreement effectively.

Through this dual focus on performance and context, the paper aims to offer a nuanced understanding of Indonesia's evolving role in RCEP. It identifies the extent to which early outcomes align with policy expectations and outlines the reforms and strategic shifts needed to ensure that Indonesia becomes a more active and competitive participant in regional economic integration.

2. Theory

This study adopts the perspective of New Trade Theory (NTT) to explain how Free Trade Agreements (FTAs), including the Regional Comprehensive Economic Partnership (RCEP), influence a country's economic performance. Developed by Paul Krugman in the late 1970s, New Trade Theory expands beyond the classical notion of comparative advantage by emphasizing the role of economies of scale, network effects, and product differentiation in shaping international trade patterns (Krugman, 1979). NTT suggests that countries can gain a competitive edge not only through differences in resource endowments but also by developing specialization in industries where increasing returns to scale are present. These dynamics are particularly relevant in the context of large, rules-based trade agreements such as RCEP, which are designed to expand market access and promote industrial cooperation across member countries.

Under NTT, FTAs contribute to trade openness by reducing or eliminating barriers such as tariffs, quotas, and other non-tariff restrictions (Venture Economics, 2025). By enabling firms to access larger markets, FTAs enhance export opportunities, attract foreign direct investment, and foster cross-border supply chain integration. These outcomes, in turn, can stimulate GDP growth and support participation in Global Value Chains

(GVCs), particularly for countries that are able to align their industrial capacities with regional production networks. In addition, increased competition within liberalized markets encourages innovation, improves product quality, and enhances production efficiency—effects that further amplify the long-term gains from trade liberalization (Economics Help, 2017).

In the case of RCEP, the benefits predicted by New Trade Theory depend heavily on a country's readiness to engage with these expanded market dynamics. For Indonesia, the theory provides a conceptual lens to assess whether RCEP has facilitated measurable improvements in trade openness, FDI inflows, export performance, and GVC integration. It also helps identify structural limitations that may hinder the realization of these gains, thereby informing the discussion on how Indonesia can better leverage the agreement to support its broader economic development objectives.

While New Trade Theory explains the economic mechanisms through which RCEP could generate gains, it does not, on its own, explain why a country may fail to realize those gains after formally joining an agreement. This study therefore complements NTT with insights from public policy implementation theory, which examines the process by which formally adopted policies are translated—or fail to be translated—into intended outcomes. Mazmanian and Sabatier (1983) argue that successful implementation depends on the tractability of the policy problem, the extent to which the policy itself structures implementation through clear objectives and adequate resources, and the political and institutional support available to implementing agencies. Grindle (1980) similarly emphasizes that implementation outcomes are shaped jointly by the content of a policy and the administrative, political, and economic context into which it is introduced, particularly in developing-country settings where institutional capacity is often uneven. Applied to RCEP, this perspective suggests that Indonesia's formal accession to the agreement represents only the policy formulation stage; whether that commitment translates into measurable trade and investment gains depends on implementation-stage factors such as regulatory coordination, administrative capacity, and the alignment of domestic institutions with the agreement's provisions. This framing directly informs the study's central expectation: that Indonesia may exhibit an implementation gap—formal membership without commensurate structural follow-through—rather than a failure of the agreement's underlying economic logic.

This expectation is consistent with prior empirical work on Indonesia's engagement with RCEP and similar trade arrangements, and helps justify the outcome variables examined in this study. Damuri and Friawan (2022) find that Indonesia's capacity to translate RCEP commitments into economic reform remains constrained by domestic regulatory and institutional factors, while their companion study on regional value chains highlights persistent gaps in Indonesia's supply chain integration relative to regional peers. Park, Petri, and Plummer (2021) project substantial aggregate gains from RCEP but note that these gains are highly conditional on members' domestic policy responses. Wicaksono and Yuanfen (2023) similarly argue that unlocking Indonesia's FDI potential under RCEP requires institutional and policy reform rather than membership alone, and the OECD (2023) identifies regulatory uncertainty and licensing complexity as specific administrative barriers to investment. These studies collectively justify the study's choice of exports, trade openness, FDI, and GVC participation as outcome variables: each captures a distinct channel through which policy implementation—not merely policy adoption—determines whether a trade agreement's theoretical benefits materialize.

3. Research Method

Equations and formulae should be typed in Math This study employs a quantitative, quasi-experimental approach using panel data to examine the economic impact of RCEP membership on Indonesia's performance relative to other countries. The core method used in this analysis is the Difference-in-Differences (DiD) estimation, which allows the researcher to estimate causal effects in non-experimental settings by comparing the changes in outcomes over time between a treatment group and a control group. This method is particularly suitable for evaluating the effect of policy interventions such as trade agreements, where random assignment is not possible, and timing varies across contexts.

The use of DiD is justified for several reasons. First, it isolates the average treatment effect by leveraging both temporal (pre-post) and cross-sectional (member vs. non-member) variation. This makes it a strong tool for measuring changes that can be plausibly attributed to Indonesia's participation in RCEP. Second, it helps control unobserved heterogeneity across countries through fixed effects. Alternative methods such as cross-sectional regression would fail to account for time-invariant country-specific characteristics, while time-series models would not allow for a comparative analysis across multiple countries. Therefore, DiD offers the most appropriate balance between simplicity, statistical control, and policy relevance for the question at hand.

The dataset used in this study is sourced from the World Bank's World Development Indicators (WDI) and spans the period from 2010 to 2023. It covers a balanced panel of 15 RCEP member countries—including Indonesia, China, Japan, South Korea, Australia, New Zealand, Vietnam, Malaysia, Singapore, Thailand, the Philippines, Cambodia, Laos, Myanmar, and Brunei—alongside a selection of comparable non-member countries such as India, Taiwan, and Hong Kong. This combination allows for both within-group and between-group comparisons before and after the signing of RCEP in 2020. Table 3.1 describes variables that are used in the analysis:

Table 3.1. Variables detail

Variable	Description
Dependent Variables	
Exports (% of GDP)	Share of exports in GDP (%)
FDI (% of GDP)	Net foreign direct investment inflows as a share of GDP (%)
Trade Openness	Total trade (exports + imports) as a share of GDP (%)
GVC Participation	Global value chain integration index
Independent Variables	
RCEP Membership	Binary variable indicating membership status, unit: dummy (1 = member, 0 = non-member).
Post-RCEP Period	Binary variable for the years after RCEP implementation (2021–2023), unit: dummy (1 = post, 0 = pre).
Interaction Term (RCEP × Post)	Captures the average treatment effect, unit: interaction term (dummy × dummy).
Control Variables	
Tariff Rate	Average applied tariff rate (%)
Number of FTA	Number of free trade agreements each country have each year
Economic Complexity Index	Measure of economic sophistication
Logistics Performance Index	Quality of trade logistics
GDP per Capita (PPP)	Income per person adjusted for purchasing power ($)
Inflation Rate	Annual change in consumer prices (%)

Source: Author

The DiD model is estimated using fixed effects for country and year to control for time-invariant national characteristics and global shocks that could affect trade and investment outcomes. The regression model is specified as:

$$Yit=\alpha+\beta1RCEPi+\beta2Postt+\beta3(RCEPi\times Postt)+\mu i+\lambda t+\varepsilon it$$

Where Yit denotes the outcome variable for country i in year t and β3 represents the treatment effect of RCEP membership after implementation. Country (μi) and year (λt) fixed effects help mitigate potential omitted variable bias.

To supplement the regression analysis, descriptive statistics and visual time-series plots are used to compare Indonesia's performance with other RCEP countries across the four outcome variables. These visualizations not only help explore trends but also validate the parallel trends assumption, a key requirement of DiD.

4. Results

4.1 Descriptive analysis

An initial examination of the time-series plots and descriptive statistics offers critical insights into Indonesia's economic trends relative to its RCEP peers. As shown in Figure 4.1, Indonesia's number of Free Trade Agreements (FTAs) has increased steadily over the study period, reflecting a consistent, long-term policy of gradual economic integration. However, this trend shows no significant acceleration following the signing of RCEP in 2020, suggesting that RCEP membership has not, in the short term, prompted a structural shift in Indonesia's trade policy approach. This contrasts with the more rapid, and at times exponential, growth in FTAs seen in other RCEP members like Singapore and South Korea.

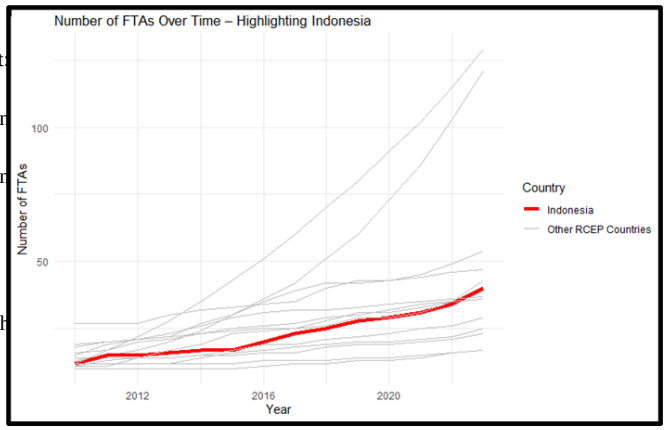


Figure 4.1. Number of FTA each RCEP Member Countries, 2010-2023
Source: World Development Indicators (2024)

The visual analysis of Global Value Chain (GVC) participation and Foreign Direct Investment (FDI) inflows presents a more pronounced pattern of stagnation. As depicted in Figure 4.2, Indonesia's GVC participation has remained relatively flat or even slightly declined over the last decade, with a distinct downturn visible around 2016-2020. This trend is markedly different from countries like Malaysia and Vietnam, which have experienced a more robust upward trajectory, indicating their deeper integration into regional supply chains.

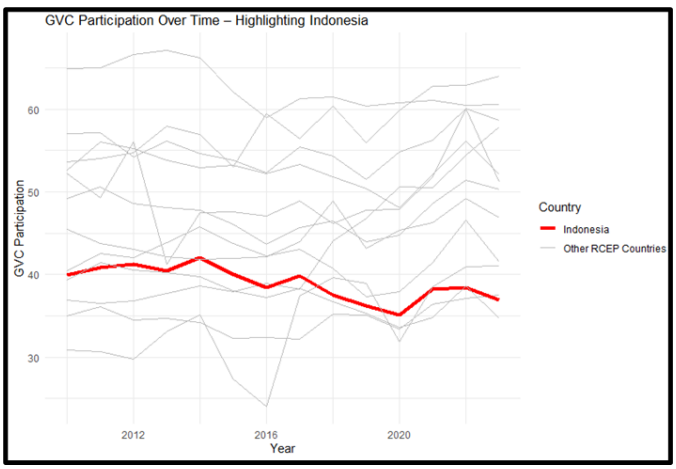


Figure 4.2. Global Value Chain index, each RCEP Member Countries, 2010-2023
Source: World Development Indicators (2024)

A similar pattern is observed for FDI as a percentage of GDP in figure 4.3 , where Indonesia's levels remain

consistently low and show no significant increase after the RCEP signing, trailing far behind the more export-oriented and investment-rich economies in the region. These visual trends strongly suggest that, despite the theoretical potential of RCEP, Indonesia has not yet emerged as a major hub for either regional investment or value chain integration

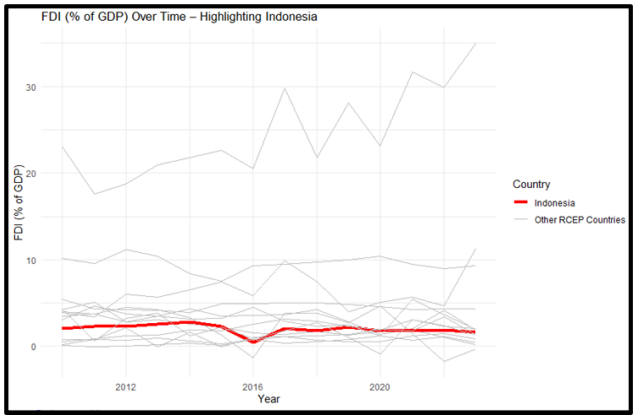


Figure 4.3. FDI Percentage in GDP Participation between RCEP Members and Indonesia, 2010-2023
Source: World Development Indicators (2024)

The descriptive trends for exports as a percentage of GDP also reflect this pattern of relative modesty. As shown in Figure 4.4, while some RCEP countries experienced a noticeable boost in exports post-2020—potentially driven by both the agreement and a global post-pandemic recovery—Indonesia's export performance remains stable and well below the regional average. These visual findings collectively raise questions about the extent to which Indonesia's domestic structural and institutional conditions are enabling it to leverage the opportunities presented by the RCEP framework.

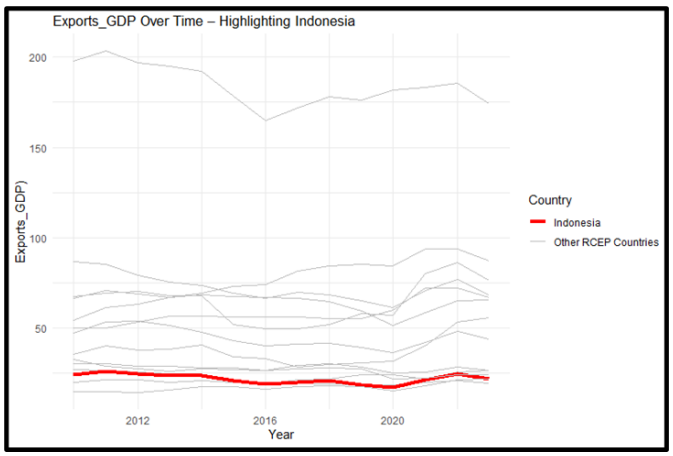


Figure 4.4. Exports Percentage in GDP Participation between RCEP Members and Indonesia from 2010-2023
Source: World Development Indicators (2024)

4.2 Inferential Results

The descriptive findings are further substantiated by the results of the DiD regression analysis, which isolates the causal effect of RCEP membership. **Table 4.1** presents the key findings, with the interaction term (RCEP×Post) representing the average treatment effect for Indonesia's RCEP participation for trade-related outcomes, the analysis reveals a modestly positive but marginally significant effect on exports as a percentage of GDP and trade openness. The regression coefficient for exports as a percentage of GDP is +7.02 with a p-value of 0.06. This suggests a potential increase in Indonesia's exports relative to its GDP, but the p-value is just above the conventional 5% significance threshold, indicating the evidence is modest and not statistically robust.

A similar finding is observed for trade openness, which shows a coefficient of +12.45 and a p-value of 0.098, again suggesting a slight increase that is only marginally significant. In contrast, the regression results for FDI and GVC participation indicate no statistically significant impact. The coefficient for FDI as a percentage of GDP is a small positive +1.03, but with a high p-value of 0.17, which is not statistically significant.

Similarly, the GVC participation index has a coefficient of **+2.58** but a high p-value of **0.33**, confirming the descriptive observation that there has been no meaningful increase in Indonesia's integration into regional value chains since joining RCEP. The lack of a statistically significant effect for both FDI and GVC participation is a key finding, as it suggests that RCEP membership alone has not been sufficient to attract the kind of capital flows and supply chain integration that would typically drive long-term economic gains from such an agreement.

Table 4.1. Inferential results

Outcome	Coefficient	P-Value	Significance	Interpretation
Exports/ GDP	+7.02	0.06	Marginal	RCEP may have helped boost exports, but evidence is modest
FDI/ GDP	+1.03	0.17	Not sig.	No clear impact on investment flows yet
Trade Openness	+12.45	0.098	Marginal	Trade is more liberalized, offering opportunities
GVC Participation	+2.58	0.33	Not sig.	Integration into value chains has not increased significantly

These inferential findings, taken in conjunction with the descriptive statistics, support the central argument that while RCEP may have contributed to a modest increase in Indonesia's trade activity, its economic effects on more strategic indicators such as FDI and GVCs have been limited or have not yet materialized. The results imply that Indonesia's performance exhibits more continuity than transformation, underscoring the influence of domestic structural factors that appear to be constraining its ability to fully capitalize on the agreement's opportunities.

5. Discussion and conclusion

5.1. Discussion

The findings of this study highlight Indonesia's limited economic gains from the Regional Comprehensive Economic Partnership (RCEP) in its early phase. The difference-in-differences estimation reveals that while exports and trade openness show marginally significant increases post-RCEP—with coefficients of +7.02 and +12.45 percentage points respectively—there is no statistically significant improvement in foreign direct investment (FDI) or global value chain (GVC) participation. These quantitative results are strongly reinforced by the descriptive trends. Over the 2010–2023 period, Indonesia's FDI inflows and GVC participation remain flat or stagnant, whereas countries such as Vietnam, Malaysia, and China show marked upward trajectories in these indicators. The export-to-GDP ratio for Indonesia also lags behind more export-driven RCEP peers like Singapore and Vietnam, with limited diversification beyond raw commodities.

These patterns suggest that while RCEP may have marginally improved Indonesia's trade exposure, it has not yet served as a catalyst for deeper structural transformation. This finding aligns with broader academic literature on the conditions necessary to benefit from deep trade agreements. Petri and Plummer (2020) emphasize that for developing economies, trade agreements like RCEP offer only conditional benefits—countries with institutional readiness, manufacturing competitiveness, and regulatory efficiency are better positioned to leverage expanded market access. Similarly, Baldwin and Freeman (2022) argue that integration into regional value chains is no longer determined solely by tariff reductions but hinges on "connective infrastructure" and digital readiness, areas where Indonesia continues to trail behind.

One of the critical constraints appears to be Indonesia's economic structure, which remains heavily oriented toward low-technology exports such as palm oil, coal, and raw minerals. This composition is mismatched with RCEP's primary channels of value creation, which favor high-tech manufacturing, digital trade, and participation in intermediate goods supply chains (Damuri & Friawan, 2022). The regression result for GVC participation—a coefficient of +2.58 with a p-value of 0.33—supports this mismatch. The corresponding descriptive plot shows that Indonesia has neither caught up nor converged with regional peers in supply chain integration, despite being a founding RCEP member.

In terms of FDI, Indonesia's underperformance is equally concerning. The regression coefficient (+1.03, $p = 0.17$) and the visual trends both indicate that RCEP membership has not significantly increased investment inflows. Academic research highlights several contributing factors. According to the OECD (2023), Indonesia's persistent regulatory uncertainty, cumbersome licensing processes, and inconsistent subnational governance remain deterrents for foreign investors. Wicaksono and Yuanfen (2023) similarly stress that without reforms in investment facilitation, infrastructure development, and dispute resolution, Indonesia's comparative appeal will remain limited compared to more streamlined economies like Vietnam and Thailand.

Furthermore, while RCEP provides a simplified rules-of-origin framework and harmonized trade regulations, its benefits are often mediated by a country's domestic capacity to implement and exploit these provisions. Evidence from ERIA (2023) suggests that utilization of FTA benefits across ASEAN remains uneven, and in Indonesia's case, low awareness among SMEs, poor export facilitation services, and limited access to trade finance are key bottlenecks. These internal constraints explain why Indonesia's trade performance post-RCEP reflects continuity rather than transformation.

Although the short implementation window—only two years since RCEP entered into force—must be acknowledged, the contrast between Indonesia's performance and that of more agile RCEP economies underscores that timing alone does not explain the disparity. Rather, the gap is structural. Indonesia's case illustrates what Baldwin (2022) terms a "passive integration trap," where countries join trade blocs but fail to align domestic reforms, thus remaining peripheral rather than embedded in core value chains.

Read through the lens of public policy implementation theory, this pattern is best understood as an implementation gap rather than a design flaw in RCEP itself. In Mazmanian and Sabatier's (1983) terms, Indonesia's RCEP accession scores well on problem tractability and statutory clarity—the agreement itself sets out unambiguous tariff and rules-of-origin commitments—but implementation falters on the political and institutional variables their framework identifies: fragmented hierarchical integration across ministries and subnational licensing authorities, inconsistent bureaucratic commitment to translating trade commitments into domestic regulatory change, and limited initial allocation of administrative resources to implementation itself. Grindle (1980) would similarly locate the shortfall in the interaction between policy content and implementation context: RCEP's content demands manufacturing competitiveness and logistical readiness that Indonesia's administrative and industrial context does not yet supply. This reframes the study's core finding: Indonesia has not failed to benefit from RCEP because the agreement lacks economic potential,

but because the domestic implementation structures needed to convert formal membership into administrative and industrial follow-through remain underdeveloped.

The findings of this study underscore the urgent need for Indonesia to implement structural reforms that go beyond formal RCEP membership. The absence of strong investment inflows and stagnant GVC integration point to persistent bottlenecks such as regulatory uncertainty, limited industrial upgrading, and inadequate trade infrastructure. To address these, Indonesia must prioritize strengthening its investment climate through full and consistent implementation of the Omnibus Law, streamlining subnational licensing procedures, and reinforcing legal certainty. Simultaneously, targeted industrial policies should focus on shifting the economy from raw commodity exports toward higher-value manufacturing, particularly in electronics, machinery, and downstream processing of minerals. Investment in trade facilitation—through port modernization, digital customs, and logistics connectivity—will be essential to lower transaction costs and attract supply chain-linked FDI. Moreover, empowering SMEs with access to export training, trade finance, and knowledge of RCEP provisions can help broaden participation. These reforms, if well-coordinated and sustained, would allow Indonesia to move from passive participation toward strategic integration within RCEP, ultimately transforming marginal trade gains into long-term economic resilience.

5.2 conclussion

Framed through public policy implementation theory, this study assessed Indonesia's early economic performance under the Regional Comprehensive Economic Partnership (RCEP) using both descriptive comparisons and difference-in-differences analysis, treating RCEP membership as a policy formulated but not yet fully implemented. The results reveal a mixed picture: while there are marginally significant improvements in exports and trade openness, there is no clear evidence of increased foreign direct investment or deeper integration into global value chains. Indonesia continues to lag behind more industrialized RCEP members such as Vietnam, Malaysia, and Singapore, both in terms of export diversification and supply chain participation. These outcomes suggest that RCEP membership alone is insufficient to generate meaningful gains without supportive domestic reforms. The structural mismatch between Indonesia's commodity-based economy and the manufacturing- and technology-intensive nature of RCEP trade flows remains a critical barrier. Moreover, regulatory inefficiencies and underdeveloped trade infrastructure further limit Indonesia's ability to leverage the agreement. As such, the benefits of RCEP for Indonesia are likely to be realized only if accompanied by coherent policies aimed at industrial upgrading, investment climate improvement, and SME empowerment. Going forward, the government must adopt a proactive strategy to align national capabilities with RCEP's opportunities, ensuring that trade liberalization translates into inclusive and sustainable economic transformation. In implementation-theory terms, closing this gap requires strengthening the statutory and administrative variables identified by Mazmanian and Sabatier (1983)—clearer inter-ministerial coordination, dedicated implementing resources, and sustained political commitment—so that RCEP shifts from a formally adopted policy to a fully implemented one. Continued monitoring and evaluation will be essential to track progress and guide policy adjustments over time.

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