

# CHAPTER I

## INTRODUCTION

Under the Joko Widodo administration, Indonesia participates in international trade agreements, such as the The Regional Comprehensive Economic Partnership Agreement (RCEP) agreement. RCEP is an agreement that aims to strengthen cooperation between ASEAN and its economic partners. This research discusses the Indonesian political economy interest analysis in the RCEP agreement under the Joko Widodo era. The purpose of this study is to find out about the reasons and interests that President Joko Widodo wants to get through the RCEP agreement. In this study, the researcher implemented qualitative research and researched various sources to support this research, such as books, journals, news, websites, and other electronic data that can support the research. This research used rational choice theory to determine Indonesia's factors and benefits by signing the RCEP agreement.

### **A. Background**

Indonesia is a country that applies the principle of independent and being active in its foreign policy. This principle is still used in Indonesian foreign policy. It aims to establish good cooperative relations with many countries so that Indonesia can play an active role in maintaining world peace. Even though Indonesia has a foreign policy principle that never changes, every period of government has a foreign policy that changes according to its national interests. During Susilo Bambang Yudhoyono's administration, Indonesia focuses on democracy, moderation, and human rights (Alvian, Putri, & Ardhani, 2017-2018). In addition, SBY also focuses more on outward-looking policies, namely by collaborating with international forums to

create a good image of Indonesia in the international world. Meanwhile, the Joko Widodo administration focuses more on inward-looking or domestic policy, and the cooperation that is carried out also focuses on national interests, especially in the economic sector (Widiatmaja & Albab, 2019).

While Joko Widodo focuses on domestic policy, it certainly does not make Jokowi forget his foreign policy. Jokowi's foreign policy focuses on economic issues that benefit the Indonesian people. In the early periods, Jokowi's administration was very focused on long-term economic development. It was done through infrastructure development. There were five pillars of Indonesia's foreign policy during the Jokowi administration. The first pillar promotes security and peace, and the second pillar focuses on economic issues. The next pillar is the need to improve the protection of Indonesian citizens (WNI) and Indonesian Legal Entities (BHI) abroad. The fourth pillar is to increase cooperation with the Association of Southeast Asian Nations (ASEAN), and the last one is to focus on maritime issues (Fitriani & Panduwinata, 2018).

Economic globalization is a process in which more countries are involved in worldwide economic activities. This economic globalization is marked by the depletion of the boundaries of economic or market activities nationally and regionally. Still, these activities are becoming increasingly globalized or on a larger scale, which in these activities involve many countries (Zaroni, 2015). The development of economic globalization is currently moving faster. It is shown by the increase in economic activity around the world. It is marked by the presence of international trade (Urata, 2002).

In international relations, international trade seeks to study issues relating to economic relations with another country. Even so, in its development, international trade does not always run smoothly. There

are various problems and obstacles faced by countries involved in these activities. This problem is related to the issue of tariffs and quotas. To solve the various problems that occurred, the concept of free trade emerged. Free trade is not hampered by various taxes and other barriers, such as applying tariffs and quotas.

Based on the thoughts and views of all countries in the world, free trade is considered the best mechanism for implementing international trade activities. So that the whole world implements free trade through cutting tariffs or lifting trade quotas, regardless of whether the country has a strong enough industry or not (Winarno, 2011). Various researchers consider that free trade aims to improve the welfare of all parties involved (Boudreaux, 2018). The application of the concept of free trade can be carried out through various trade agreements.

Indonesia, which has a foreign policy focused on economic issues during the Jokowi administration, is active in trade agreements. These agreements include, among others, preferential trading agreements (PTA), free trade agreements (FTA), the Trade in Goods Agreement (TIGA), and comprehensive economic partnership agreements (CEPA) (Widiatmaja & Albab, 2019). The four agreements certainly have differences even though they are international economic agreements between countries. The preferential trade agreement is an agreement about reducing or eliminating all tariffs for specific products. The TIGA agreement is an agreement that minimizes all product tariffs. The CEPA agreement aims to lower trade barriers in services, goods, and investment, provide economic assistance, and form cooperation in technology, energy, and so on (Daniati, 2020).

A free trade agreement is a form of a trade cooperation agreement between a country or region and another country or region that aims to eliminate trade barriers. The existence of regionalism and the number of

FTAs carried out by countries worldwide show that the country has increased economic growth. In these collaborative activities, many international actors have formed various types of FTA into various types. The bilateral FTA created included the United States and Singapore, Japan and Indonesia, and Japan and Singapore. Examples of regional FTAs are the ASEAN Free Trade Area (AFTA), the North American Free Trade Area (NAFTA), and the Regional Partnership Agreement (RPA) (Benanya, 2019).

Until 2019, Indonesia has participated in six together with ASEAN. The FTA includes the ASEAN Trade in Goods Agreement (ATIGA), the ASEAN – China Free Trade Area (AFCFTA), the ASEAN – Korea Free Trade Area (AKFTA), the ASEAN – Japan Comprehensive Economic Partnership (AJCEP), the ASEAN – India Free Trade Area (AIFTA), and the ASEAN – Australia – New Zealand Free Trade Area (AANZFTA) (Rinaldi, 2020). ASEAN continues to develop FTAs with other countries or trading partners, and the most recently approved FTA is the RCEP (Regional Comprehensive Economic Partnership). RCEP (Regional Comprehensive Economic Partnership) is a joint agreement formed by ASEAN and its members.

The establishment of RCEP is also a manifestation of ASEAN's response to regional and global economic dynamics based on the fourth pillar of the ASEAN Economic Community (AEC), namely the integration of ASEAN with the worldwide economy. Another aim of establishing RCEP is to expand the reach and strengthen cooperation between ASEAN and its economic partners in a Free Trade Agreement (FTA) (Hsu, 2013). According to YuJane Chen, RCEP is an alternative to cooperation other than TPP (Trans-Pacific Partnership). For him, in terms of negotiations and formulation of regulations, RCEP is easier to follow, especially for middle and developing

economies. Even so, the RCEP still aims to ensure openness, competitiveness, and market economic growth for participating countries. RCEP also has a mission to maintain ASEAN's centrality in the regional integration process (Chen, 2016).

RCEP was first initiated during the ASEAN Summit in Bali in November 2011. Then in November 2012, RCEP was officially launched at the ASEAN Summit in Phnom Penh. The formation of the RCEP was based on the merger of ASEAN+3 in EAFTA (East Asian Free Trade Area) and ASEAN+6 in CEAPA (Comprehensive Economic Partnership in East Asia). RCEP is expected to become the world's largest free trade market and provide numerous benefits (Justice, 2016). The formation of RCEP began with the insistence of several free trade partners, including China and Japan. They urged ASEAN to immediately form a Free Trade Agreement (FTA), which contains all partners. At that time, China wanted an FTA consisting of Japan and Korea. Meanwhile, Japan wants an FTA consisting of China, Korea, New Zealand, Australia, and India. At that time, Indonesia became the Chair of ASEAN in 2011, so Indonesia proposed forming a joint FTA with partners called RCEP. In 2012, ASEAN and its partners ratified the Guiding Principles and Objectives for Negotiating the RCEP, which is the basis for implementing this agreement (Gultom, 2020).

In 2014, RCEP members consisted of ten ASEAN member countries and ASEAN partner countries, namely China, Japan, South Korea, Australia, New Zealand, and India (Hsu, 2013). It is considered a rare moment. When this agreement is officially ratified, it will be the first FTA in the world that can involve China and India as partners. However, this plan had to fail because, on November 4, 2019, at the ASEAN Summit in Bangkok, Thailand, India decided to withdraw from the RCEP negotiation process. So that the members of RCEP after India came out became 15 member countries

consisting of ASEAN, China, Japan, Australia, New Zealand, and South Korea.

India's withdrawal from the ongoing negotiations was based on several factors that are taken into consideration. These factors include, among others, the existence of domestic political pressure in India, namely in the form of rejection from the Indian community from various industrial sectors. Besides, India is also experiencing a trade deficit, and the Indian government is concerned that joining the RCEP will increase India's trade deficit. The Indian government also has concerns about cooperating with China. The products that are the mainstay of India are the same as China, so they are afraid of competition between the two countries to meet market needs. The Indian government's fear is based on exports, and the domestic industry is still less competitive to compete with other countries, especially China (Benanya, 2019). These considerations made India decide to quit the RCEP negotiations.

This concern felt by India can also be felt by Indonesia. It is because Indonesia has an economic situation and problems similar to India's. There is rejection from the Indonesian people through community organizations from several sectors, such as the workers, civil society coalitions, women's solidarity, and the Indonesian peasants' union. Apart from community organizations, the rejection was also carried out by some experts. Dr. Rashmi Banga, from the United Nations Conference on Trade and Development (UNCTAD), said that the RCEP agreement would not benefit Indonesia (Syahrianto, 2021).

Representatives of the Indonesian Advocacy for Global Justice (IGJ) expressed their disappointment with the attitude of the Indonesian government to continue completing the RCEP agreement during the Covid-19 pandemic (Huzaini, 2020). Furthermore, an economic observer from the Institute for Development of Economics (INDEF), Bhima Yudhistira, also thinks

RCEP will threaten Indonesia's domestic products (Arbar, 2020). Executive Director of Indonesia Global Justice (IGJ) Rachmi Hertanti and Program Coordinator of the National Executive Agency for Women's Solidarity, Arie Kurniawaty, also rejected this RCEP agreement (Huzaini, 2020).

Nonetheless, Indonesia continued to negotiate the RCEP until it was finally ratified in November 2020 during the reign of Joko Widodo. It makes the author interested in knowing why Indonesia in the Joko Widodo administration maintains this RCEP agreement.

## **B. Research Questions**

Based on the background described above, the author makes a research question: Why did Indonesia, under Joko Widodo, sign the trade agreement with RCEP?

## **C. Theoretical Framework**

The researcher will use Rational Choice Theory to answer the research question.

### **Theory of Rational Choice**

This study uses rational choice theory in identifying Indonesia's reasons under Joko Widodo's leadership in signing the RCEP agreement. In the journal *Theory of Public Choice: Political Applications of Economics*, James M. Buchanan and Robert D. Tollison explain:

*"Rational Choice Theory is a neoclassical economic theory applied to the public sector that tries to bridge microeconomics and politics by looking at the actions of citizens, politicians, and public servants as an analogy towards personal and consumer interests."* (Buchanan & Tollison., 1972).

Rational choice is an attitude taken by an individual by considering the advantages and disadvantages obtained. It is done to get maximum results. The Rational Actor Model emphasizes decision-making

more on the executive, namely the President or head of government of a country, seen as a single individual. The rational actor is a fundamental analysis of rational choice theory. This rational choice theory can explain government actions as policy-makers so that an event that is a foreign affair is an action chosen by the state or government (Allison, 1971).

The rational choice theory explains that rational actors originating from the economy will maximize their needs and desires in making decisions. As a result, rational choice theory can explain how an actor chooses actions that maximize or satisfy his wants and needs or what it means to maximize profits while minimizing costs (Coleman & Farraro, 1994). This theory is based on the assumption that an actor will assume and make judgments based on the costs and benefits of a new policy.

In this case, Indonesia should choose to continue with the RCEP agreement or withdraw from this agreement. Based on the theory of rational choice, the actions or policies taken by the Indonesian government to maintain the RCEP agreement are based on considerations of advantages and disadvantages between the two options. The researcher explains that the consideration of advantages and disadvantages that Indonesia will obtain comes from various previous studies in journals and statements by the Indonesian government regarding the benefits and the risk of this agreement. These considerations can be described in the following table :



**Table 1**  
**Considerations of The Advantages and Disadvantages of Indonesia**

No	Advantage	Disadvantage
1	Opportunity to help Indonesia economy to survive during the pandemic	Indonesia is becoming increasingly dependent on China
2	Indonesia can encourage business actors to take advantage of digital trade in the region	
3	Strengthen ASEAN's centrality	
4	Southeast Asia can overcome the bad impacts of the trade war between China and the US	

Based on this theory, the Indonesian government chose to continue the trade agreement with RCEP by considering several things. As can be seen in the table above, if Indonesia continues the economic cooperation, Indonesia will have advantages and disadvantages that will be received. The impact that will be obtained from Indonesia is that dependence on China is increasing. Furthermore, the benefits that will be accepted are as follows. The RCEP agreement is an agreement that is ratified when global economic conditions experience a decline due to the impact of the pandemic, so Indonesia hopes that continuing this agreement will help Indonesia's economy to survive in these conditions. With this agreement, the Indonesian government hopes that small and medium-sized businesses will take opportunities and take advantage of digital trade. Indonesia also hopes that this agreement will further strengthen ASEAN's centrality and that ASEAN will overcome the bad impacts of the US-China trade war through the RCEP agreement. However, after the consideration in table 1, the Indonesian government

finally continued the RCEP trade agreement because the agreement would be more profitable for Indonesia.

#### **D. Hypothesis**

Based on the background of the problem, the research question, and the theory of rational choices chosen. The considerations for Indonesia under Joko Widodo continued to maintain the Regional Comprehensive Economic Partnership Agreement (RCEP) rather than withdraw from this agreement can be explained through the economic and political sectors :

1. The RCEP agreement can help Indonesia economy to survive during the pandemic
2. Indonesia can encourage business actors to take advantage of digital trade in the region with the RCEP agreement
3. The RCEP agreement can strengthen ASEAN's centrality
4. Southeast Asia can overcome the bad impacts of the trade war between China and the US

A hypothesis can generate from this study:  
*"Indonesian government under the leadership of Joko Widodo signed the RCEP agreement because the RCEP agreement was considered more profitable for Indonesia than withdrawing from this trade agreement."*

#### **E. Research Methodology**

##### 1. Types of research

This study discusses the analysis of Indonesian political economy interests in the RCEP agreement under the Joko Widodo era. The author uses qualitative methods. Information in this method is collected using data obtained through books, journals, newspapers, websites, and other sources, which are considered relevant to the problems in this study.

##### 2. Data collection technique

The data collection technique used is through library research by utilizing existing data to support research by the topic studied and verified.

### 3. Analysis Technique

The writing of this thesis is research-based on a descriptive-analytic study. So that the data obtained will then be analyzed using a predetermined theoretical framework.

## **F. Research Purpose**

In writing this thesis, some aspects are the purpose of writing. The purpose of writing this thesis is to find out the rational reasons and considerations for President Joko Widodo in signing the RCEP trade agreement.

## **G. Scope of Research**

This process of writing takes a range of research where the aim is to limit the problems that will be described in this thesis with the title "Joko Widodo's Interests Behind Signing of The Regional Comprehensive Economic Partnership Agreement in 2019-2021." The authors provide research boundaries in the form of discussion limits in the year of Joko Widodo's leadership in the second period, namely in 2019 - 2021. During this period, 2020 is the year when the RCEP trade agreement is signed, and in 2021 this agreement has just started to begin.

## **H. Thesis Outline**

In writing this thesis, the author will divide it into several chapters which are interrelated. The following is the formulation of four chapters in this thesis work :

**Chapter I**, discusses the outline of research, which includes: background, research question, theoretical framework, hypothesis, the purpose of

research, research methodology, the scope of research, and the system of writing.

**Chapter II**, discusses the beginning of the formation of the RCEP agreement until it is officially signed.

**Chapter III** discusses the rational reasons for President Joko Widodo's policy-making in signing the RCEP agreement.

**Chapter IV**, contains the conclusions obtained from the results of the research question based on the author's view. The conclusion in this chapter is the final results of the author's research processes.