

The background of the slide features a faded city skyline, likely New York City, with a network of nodes and lines overlaid in a light purple color. The nodes are represented by circles of varying sizes, some solid and some dashed, connected by thin lines. The overall aesthetic is modern and digital.

DEEP TRADE AGREEMENTS: AN OPPORTUNITY FOR INDONESIA

Michele Ruta, Nadia Rocha and Alvaro Espitia (World Bank)

September 3, 2021



Question and roadmap

Question:

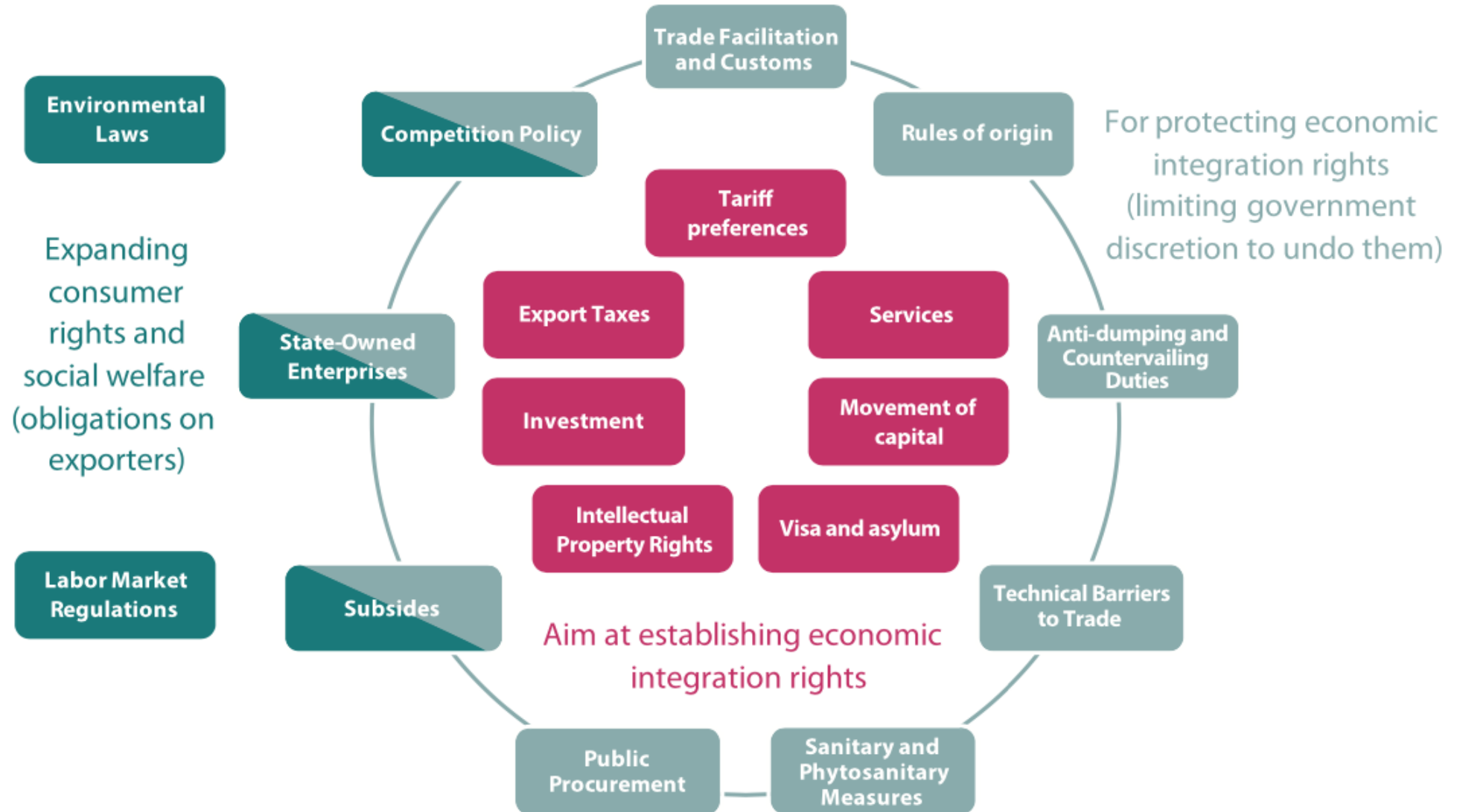
- How can Indonesia use Deep Trade Agreements (DTAs) to boost exports and participation in regional and global value chains (GVCs)?

Roadmap:

- I. Why should we care about trade agreements?
- II. From Regional Trade Agreements (RTAs) to DTAs
- III. Assessing the impact of DTAs
- IV. Patterns of Deep Trade Integration in Indonesia

I. Why should we care about trade agreements?

What are Deep Trade Agreements?

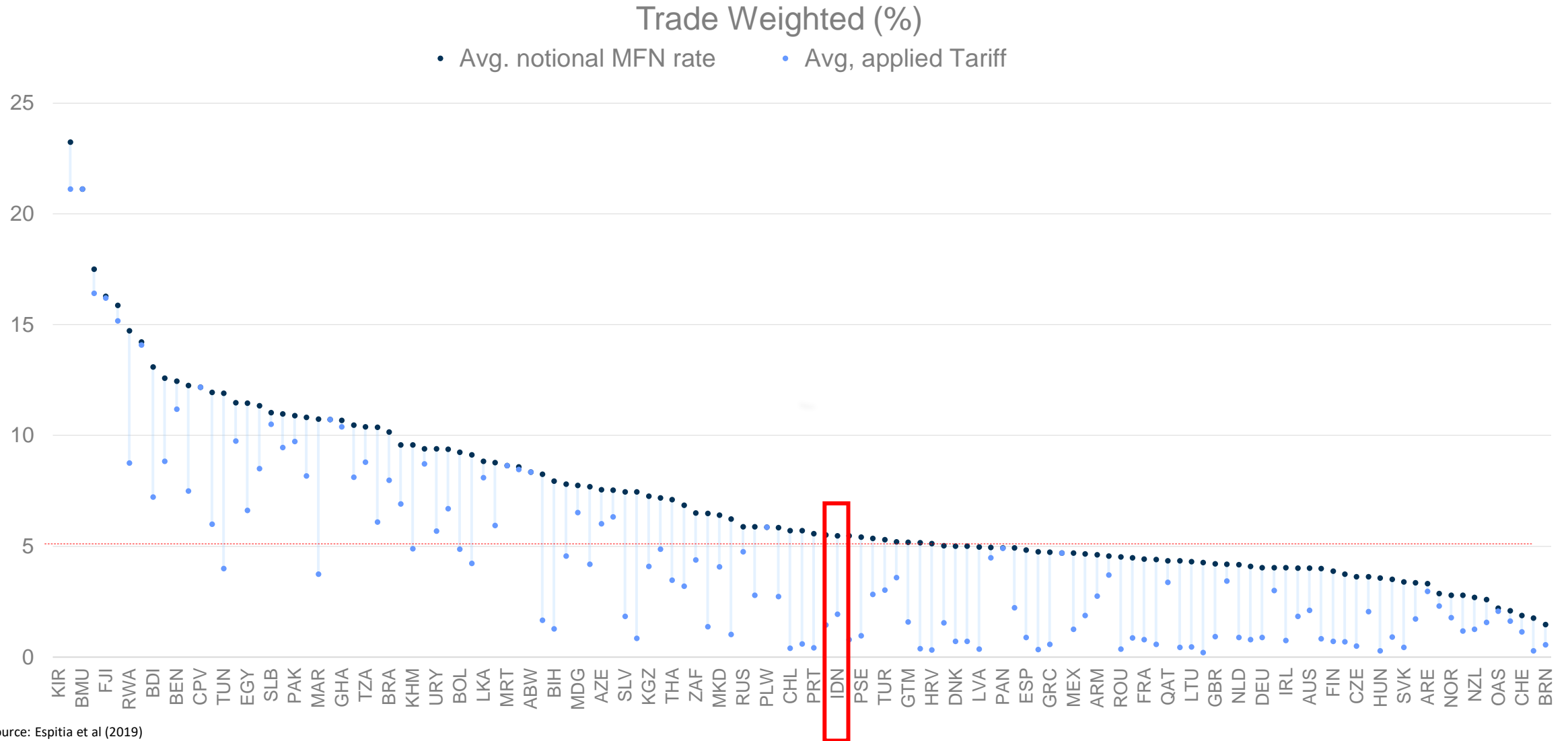


Why should we care about DTAs?

- Regional Trade Agreements (RTAs) have boomed in numbers and deepened in content
- DTAs can influence how economies integrate, function and grow
- Vital that rules and commitments are informed by evidence and analysis

II. From RTAs to DTAs

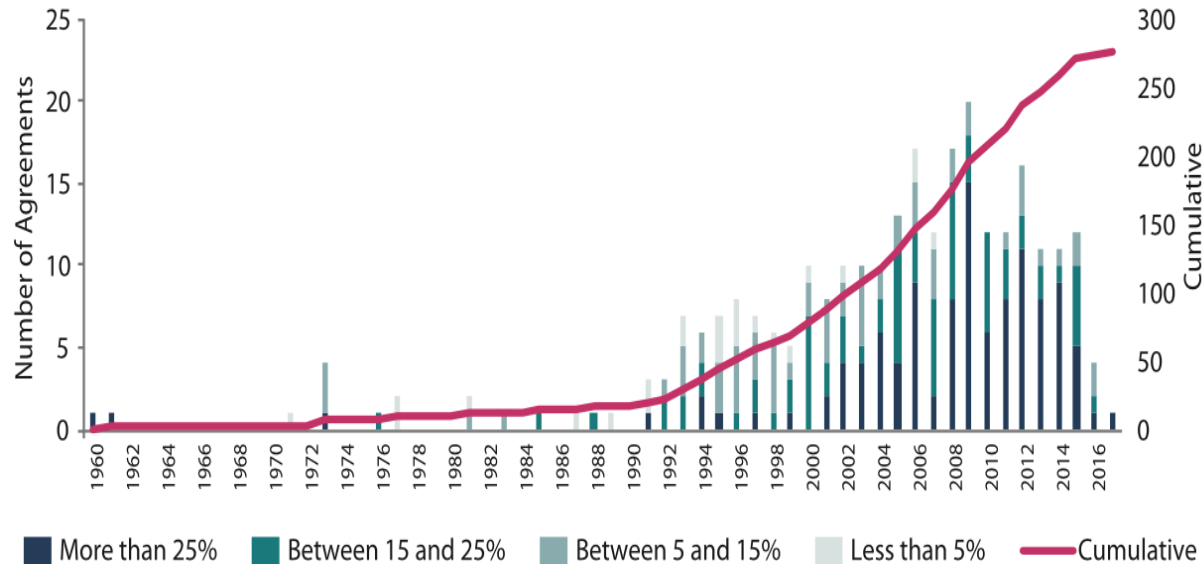
RTAs have reduced trade-weighted average tariff rates to less than 5 percent for more than two-thirds of countries



Source: Espitia et al (2019)

The number of commitments that governments have taken in RTAs has increased over time, with deepening substantive commitments including enforcements

Number of agreements over time vs. average coverage ratio



Note: Coverage ratio refers to the share of provisions contained in a given agreement relative to the maximum number of provisions. European Union agreement and enlargements excluded.

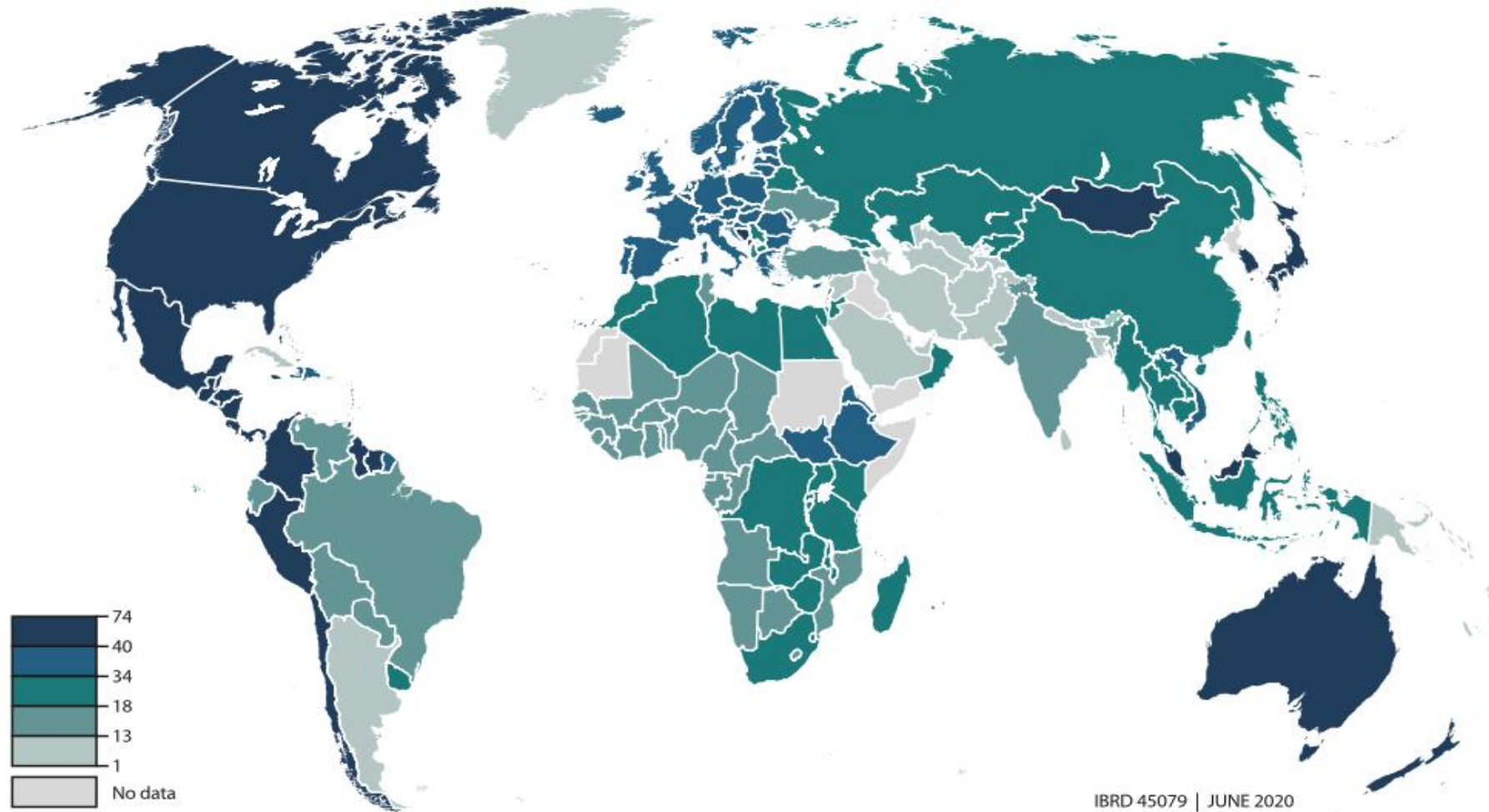
Substantive provisions and a breakdown of non-substantive provisions in RTAs, over time



Note: Coverage ratio refers to the share of provisions for a policy area contained in a given agreement relative to the maximum number of provisions in that policy area. Years refer to entry-into-force date. European Union agreement and enlargements excluded.

Developing countries tend to have fewer substantive commitments in RTAs, with few exceptions such as the Pacific Alliance

Average number of substantive provisions in RTAs by country



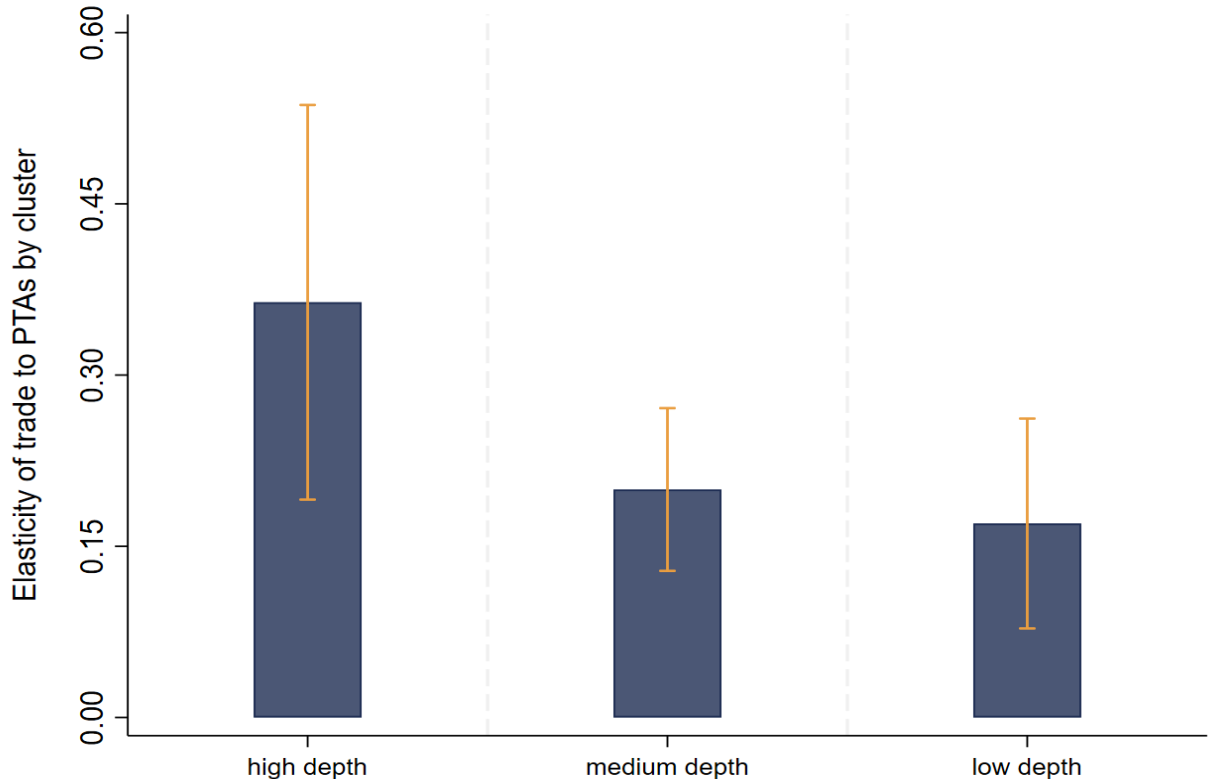
IBRD 45079 | JUNE 2020

Source: Mattoo, Rocha and Ruta (2020)

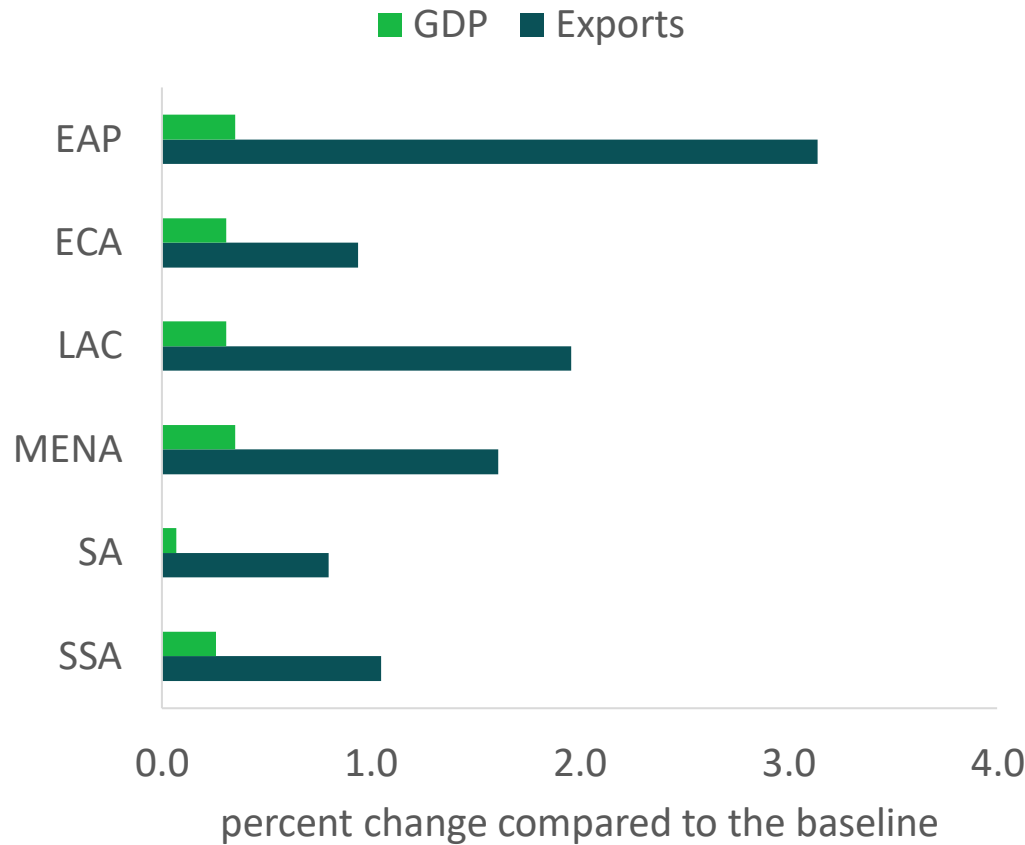
III. Assessing the impact of DTAs

DTAs promote trade integration, thus having a positive effect on welfare

Effect of different clusters of trade agreements on trade



General-Equilibrium effects of deepening existing trade agreements

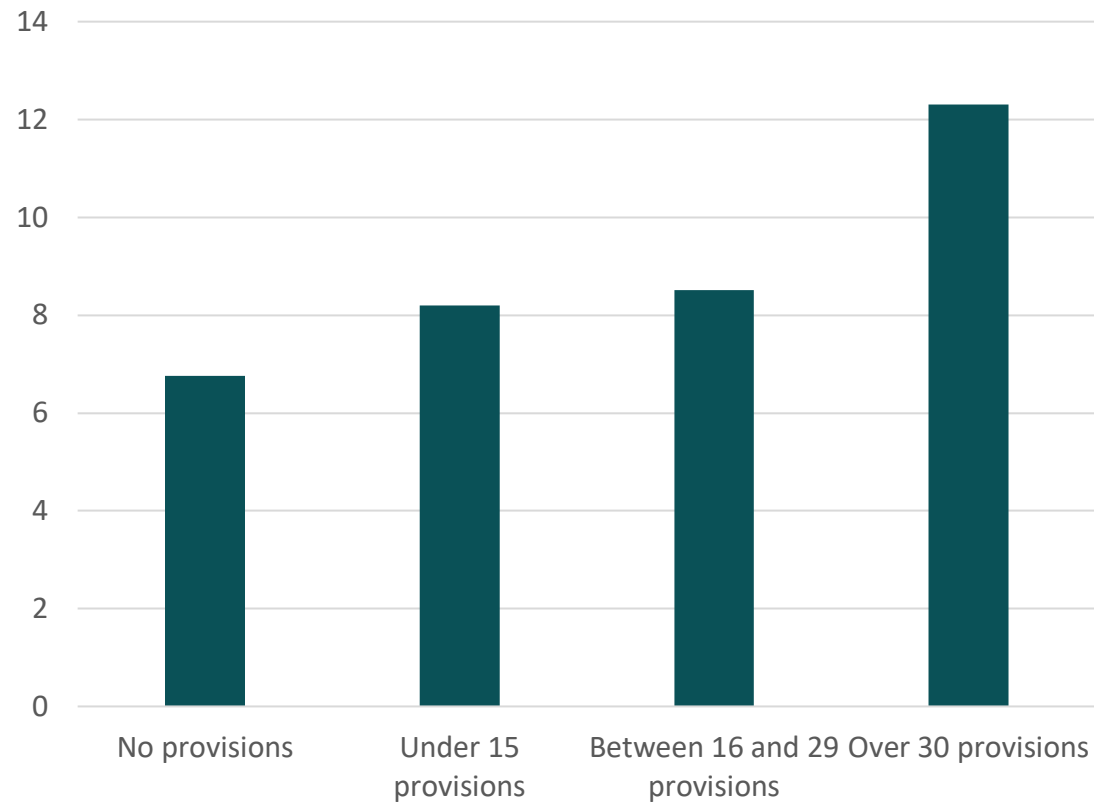


Source: Fontagné et al (2021)

Source: Fontagné et al (2021)

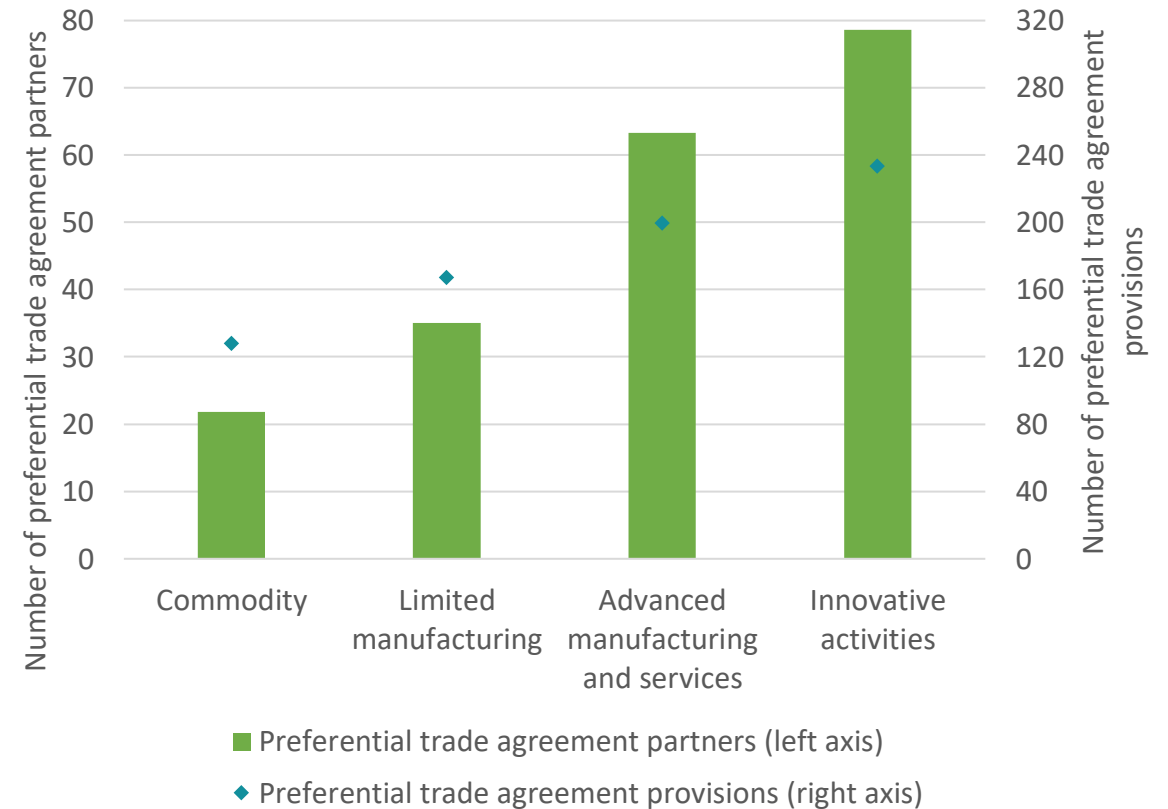
Deep trade agreements are also a vehicle for global value chain integration and upgrading

Agreements with higher number of provisions are associated with higher levels of GVC-related trade



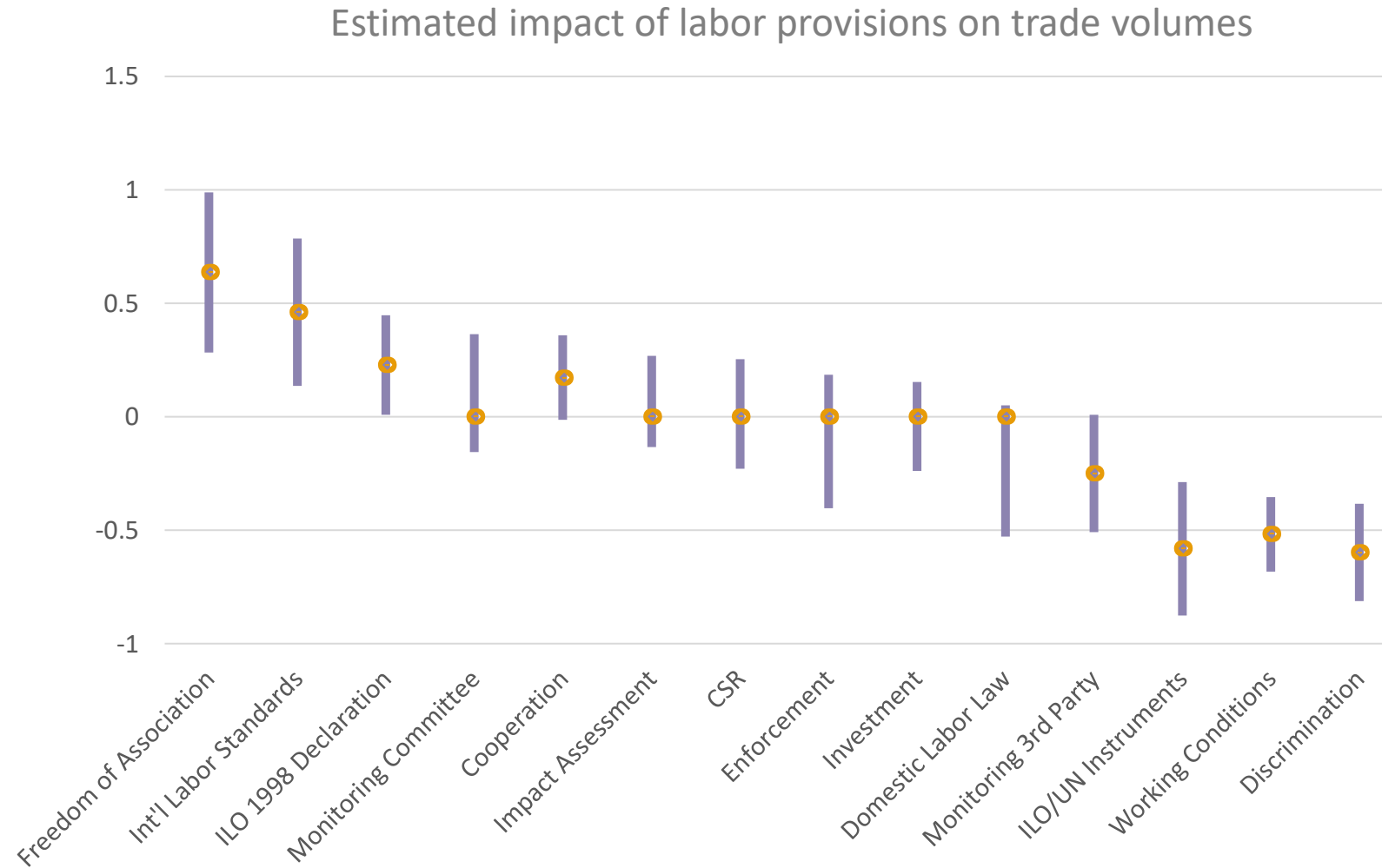
Source: Laget et al. (2018). Note: GVC-related trade is represented by trade in parts and components defined as: all non-fuel intermediates from the Broad Economic Categories (BEC) classification (codes 111, 121, 21, 22, 42 and 53)

... as well as a channel for GVC upgrading



Source: Winkler (2021); World Bank deep trade agreement database; World Bank global value chain taxonomy. Note: The chart shows averages for 2015–17 and includes only countries that appear in the World Bank global value chain taxonomy. Regions include only countries eligible for World Bank lending.

The economic effects of DTAs are shaped by the individual provisions included



Inclusion of provisions on non-tariff measures in DTAs results in larger increases in exports of small firms

Heterogeneous impacts of SPS and TBT provisions on exports in Chile, Colombia and Peru across firm size



Source: Fernandes et al (2021)

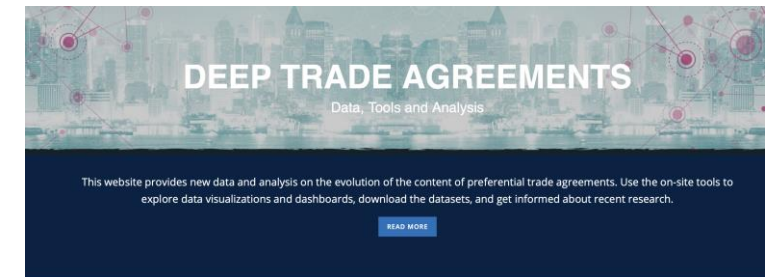
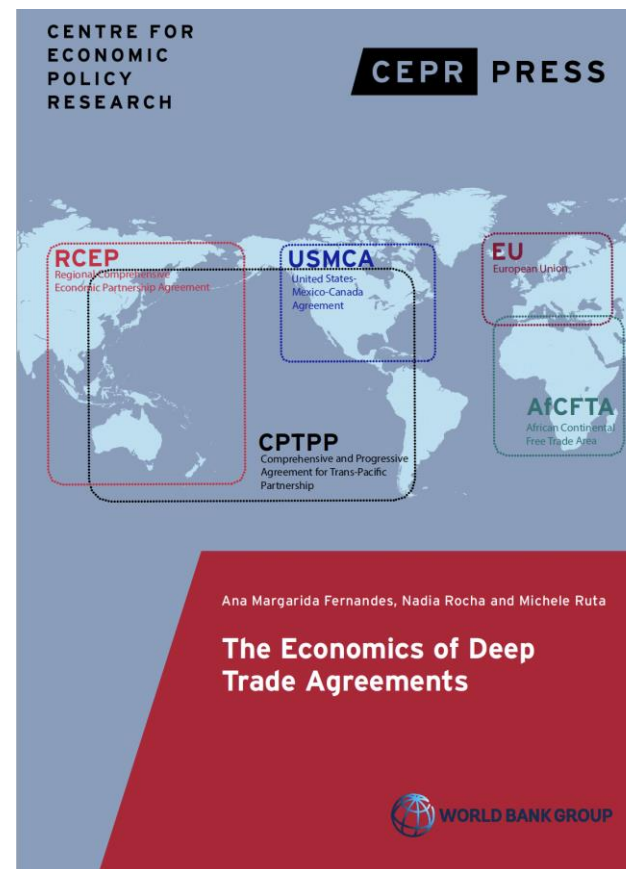
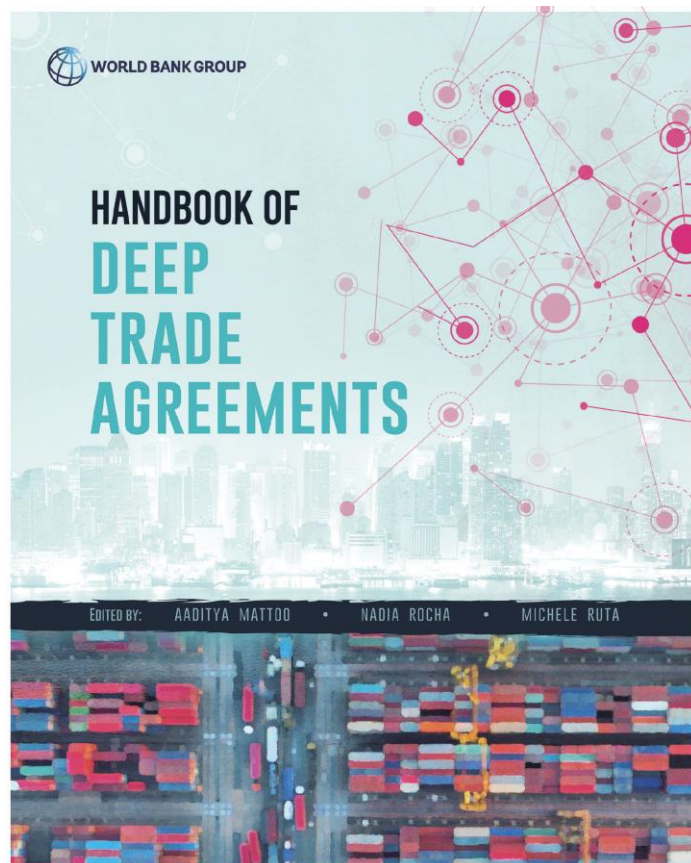
Trade facilitation provisions in DTAs help export performance of GVC firms

Heterogeneous impacts of trade facilitation provisions on exports of GVC firms in Peru



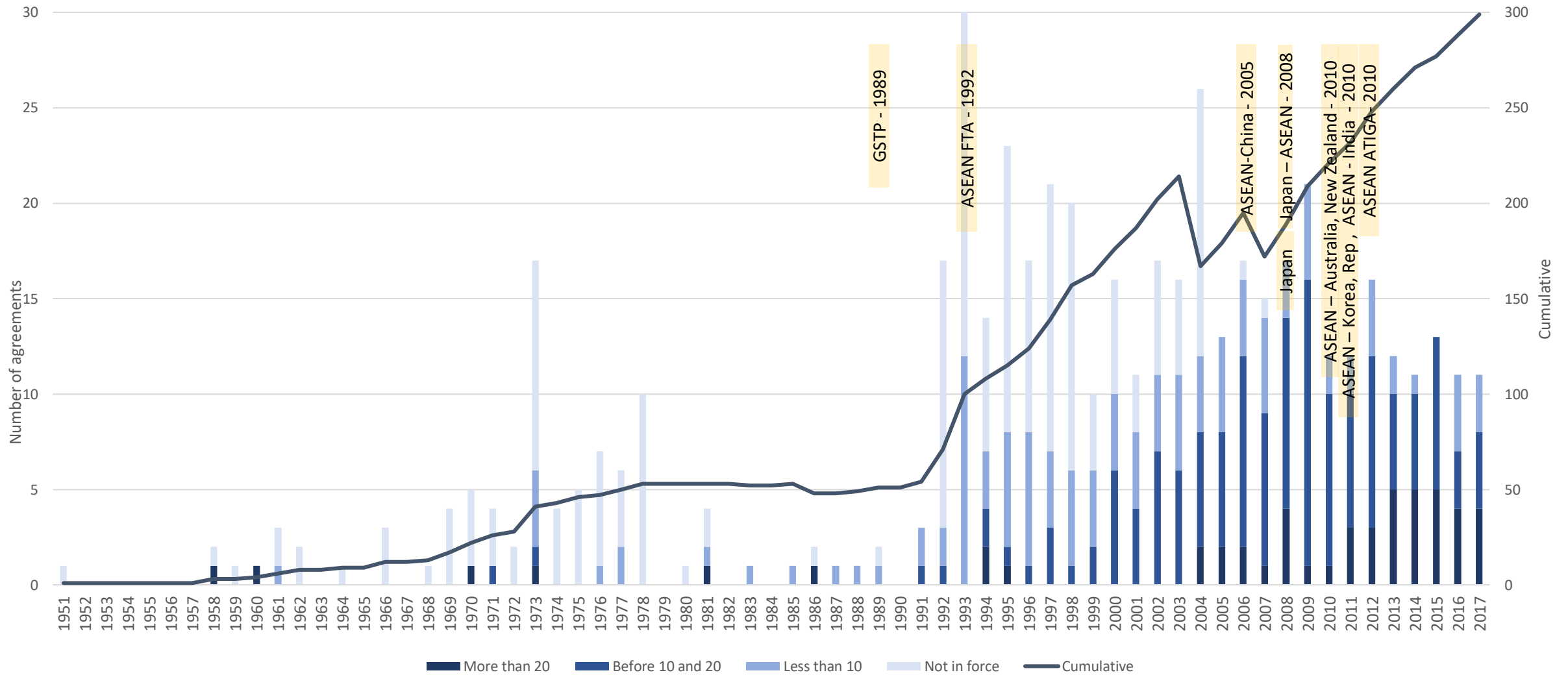
Source: Lee, Rocha and Ruta (2021)

Research and resources



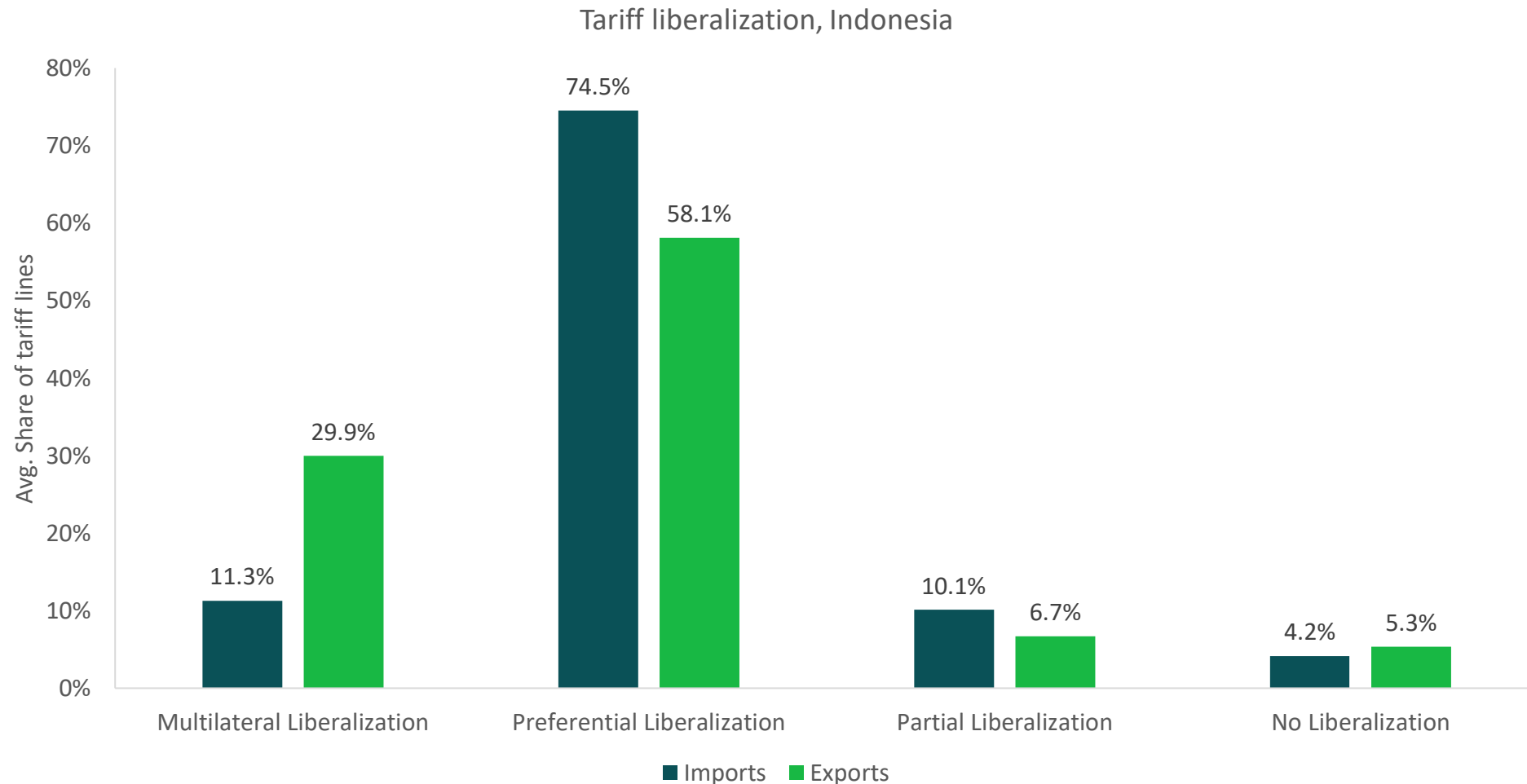
IV. Evolution of DTAs in Indonesia

Countries have integrated over time in terms of number and content of trade agreements and Indonesia is not an exception



Source: Mattoo, Rocha and Ruta (2019) Note: Indonesia in total has 12 agreements currently in force, excluding agreements are Chile-Indonesia (Aug 2019), Indonesia-Australia (Jul 2020) and Indonesia-Pakistan (2013, notified until Nov 2019), and ASEAN-Hong Kong, China (Jun 2019)

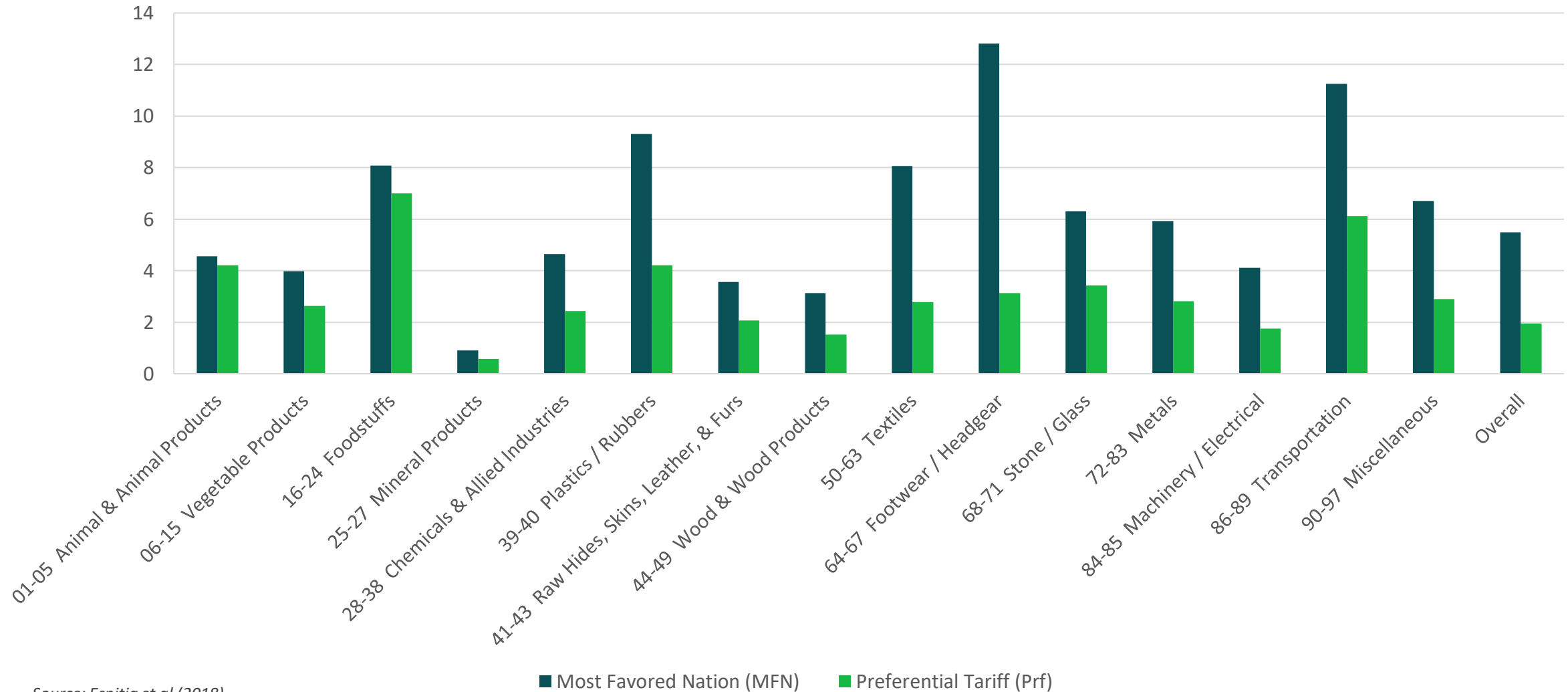
In Indonesia, more than 85 percent tariff lines under existing agreements have been fully liberalized (both for imports and exports)



Source: Espitia et al (2018)

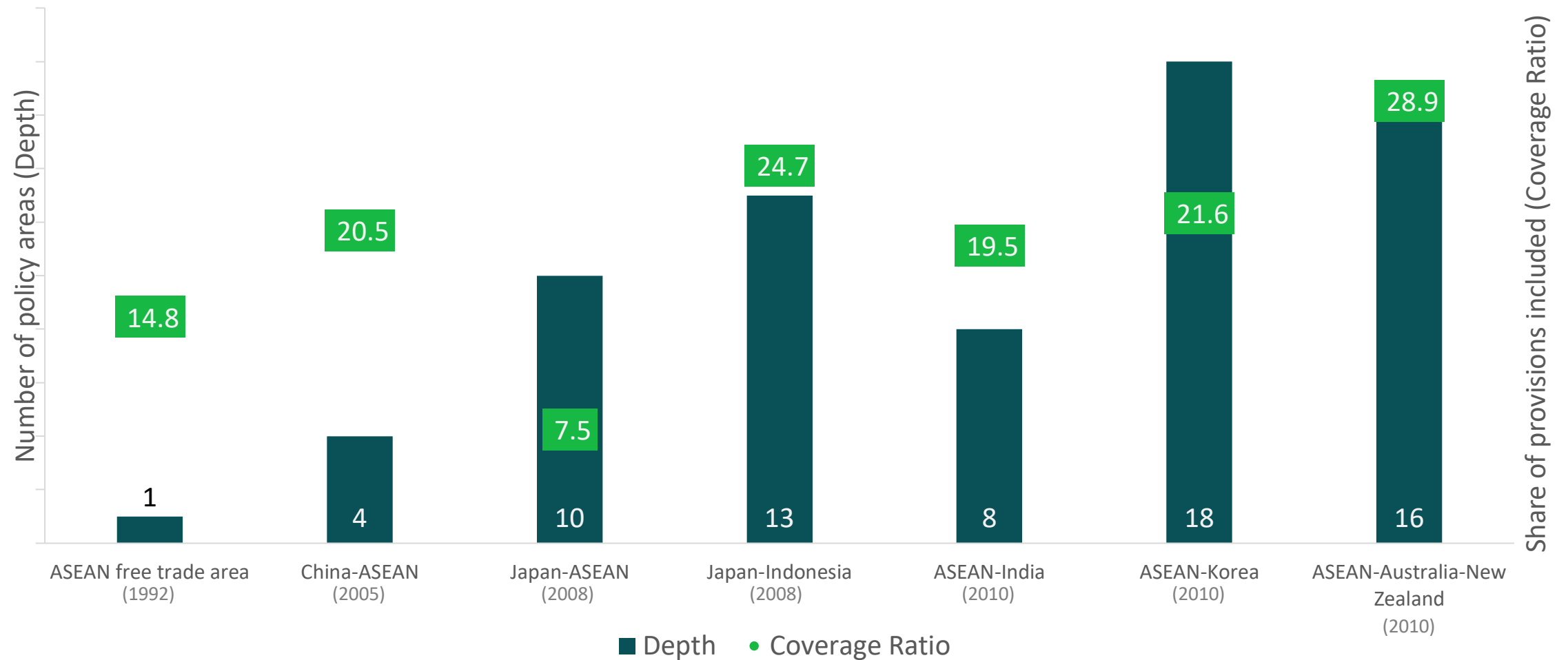
Preferential liberalization has targeted highly protected sectors in Indonesia

Trade weighted tariff rates imposed by Indonesia



Source: Espitia et al (2018)

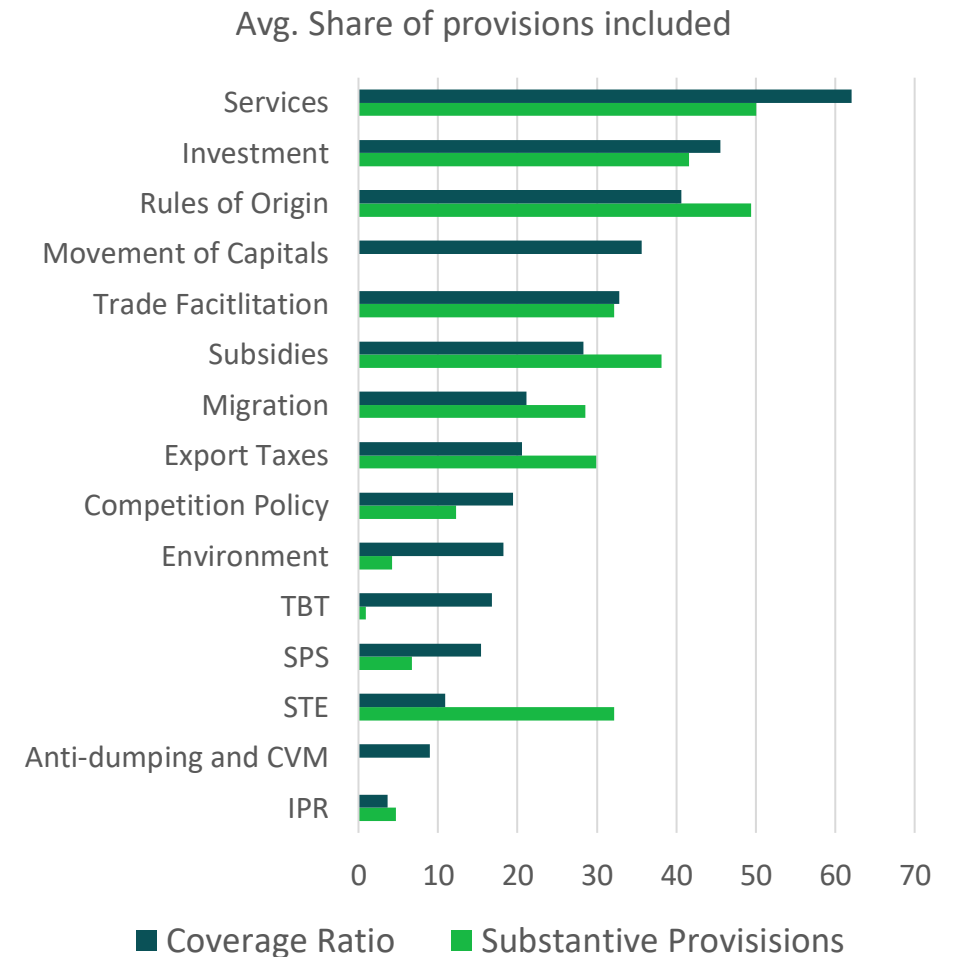
The content and coverage of Indonesia's RTAs has evolved over time



Source: Mattoo, Rocha and Ruta (2019).

But there is room for Indonesia to deepen existing or new trade agreements

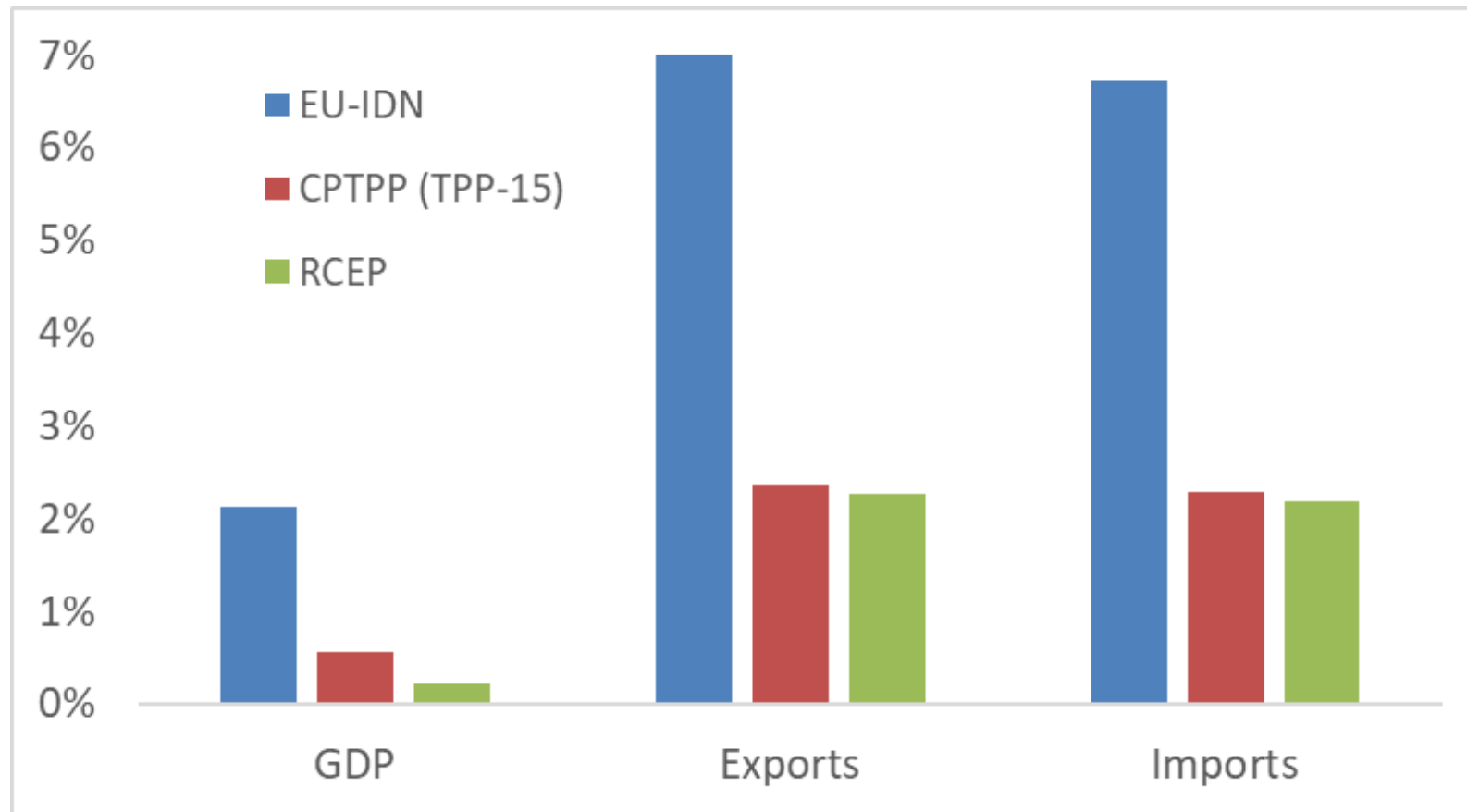
	AFTA	ASEAN - China	ASEAN - India	ASEAN - Japan	ASEAN - Korea, Republic of	Japan - Indonesia	ASEAN - Australia - New Zealand
Rules of Origin	✓	✓	✓	✓	✓	✓	✓
Services	✗	●	✓	✓	✓	✓	✓
Investment	✗	●	✗	✓	●	✓	✓
Customs	✗	✗	✓	✓	●	✓	✓
Antidumping and CVM	✗	✓	✗	✓	✓	✓	✓
TBT	✗	✗	✓	✓	✓	✗	✓
SPS	✗	✗	✓	✓	✓	✗	✓
IPR	✗	✗	✗	●	✓	✗	✓
Competition Policy	✗	✗	✗	●	✗	✓	●
Environmental Laws	✗	✗	✗	●	●	●	✗
Export Taxes	✗	✗	✓	✗	✗	✗	✓
Movement of Capital	✗	✗	✗	✗	✗	✓	✓
Visa and Asylum	✗	✗	✗	✗	✗	✓	✓
State Aid	✗	✗	✗	✗	✓	✗	✗
Public Procurement	✗	✗	✗	✗	✗	✓	✗
STE	✗	✗	✗	✗	✓	✗	✗



Source: Mattoo, Rocha and Ruta (2019). Note: Green indicates legally enforceable provisions, yellow those that are covered, and red refer to non-covered

Indonesia has untapped opportunities from DTA integration

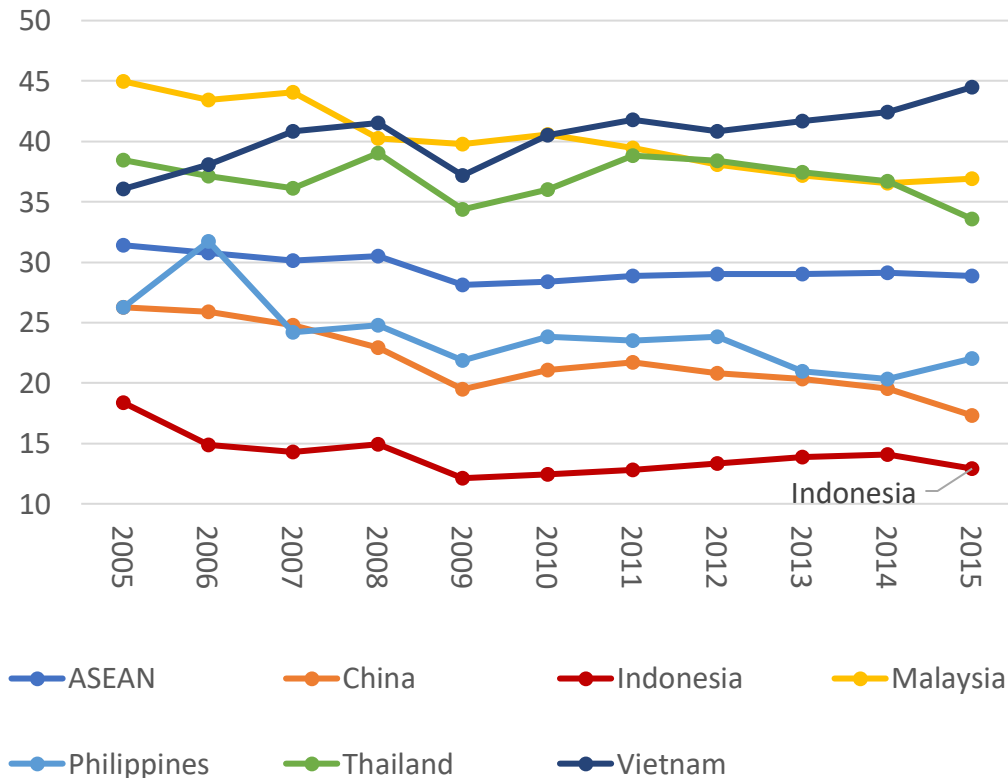
(percentage point change in Indonesia's economic variables associated with various FTAs, by 2030)



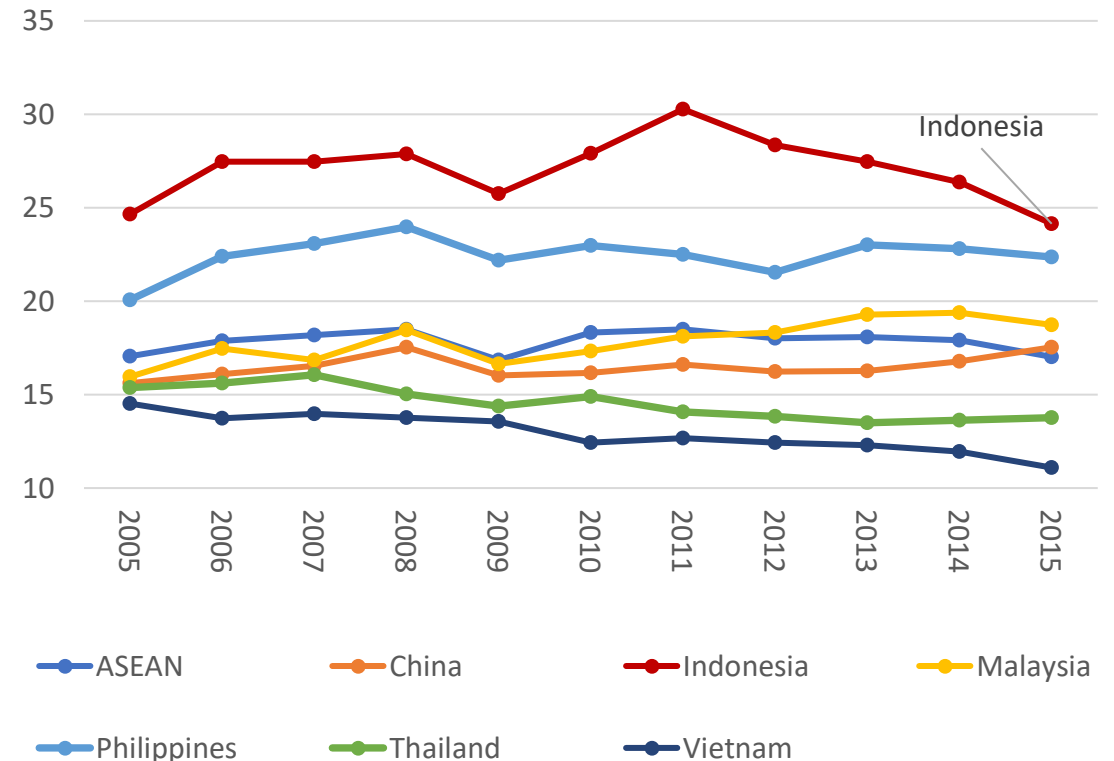
Source: Cali, M., Maliszewska, M., Olekseyuk, Z., & Osorio-Rodarte, I. (2019). Economic and Distributional Impacts of Free Trade Agreements: The Case of Indonesia. World Bank Policy Research Working Paper 9021

Indonesia has untapped opportunities from DTA integration

Backward Participation in GVCs (%)



Forward Participation in GVCs (%)



Source: World Bank's calculations based on OECD TiVA.

Notes: Backward participation is measured as the share of foreign value added in total gross exports. Forward participation is domestic value added that is reexported by other countries, as a share of the country's exports.

Proposed areas of work

- Benchmarking the overall content and specific provisions of Indonesia's trade agreements relative to other comparator or aspirational peers.
- Analysis of the impact of Indonesia's RTA depth on trade flows.
 - Analysis could be done using aggregate and granular data at the firm level to assess how the impact of DTAs varies on firms' size or type of firm (GVCs vs non GVC firms)
 - Focus on specific disciplines to assess the effect of specific provisions on trade
 - Other outcomes such as FDI could be considered
- Analysis (quantitative and qualitative) on the implementation of RTAs in Indonesia: preference utilization (subject to data availability), NTMs, other disciplines?
- Analysis on how RTAs can promote and lock-in domestic reforms in Indonesia.

THANK YOU!

For more information, visit:

<https://datatopics.worldbank.org/dta/index.html>

<https://www.worldbank.org/en/topic/regional-integration>

Contact:

Mochamad Pasha (mpasha1@worldbank.org)