

# The impact of RTAs on trade in Indonesia

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## SUMMARY OF FINDINGS

The motivation for this paper is to answer the question whether all regional trade agreements (RTAs), which operate as one of the driving forces in this process of trade creation, are equally beneficial to both partners. This paper studies the impact of RTAs on the change in dynamics of trade, disaggregated by imports and exports, between Indonesia and its intra-ASEAN and nonASEAN partners. The focal point is the analysis of the change in trade dynamics between Indonesia and forty-two other countries when specific types of RTAs are implemented. The forty countries are chosen based on their contribution to Indonesia's international trade and produce about 95 percent of it. Two other countries, Lao People's Democratic Republic (Lao PDR) and Brunei Darussalam, are members of the ASEAN free trade area (AFTA), which was essential in constructing our RTA variables.

We construct two gravity models, exports and imports, of trade to conduct the current analysis. Four different measures of RTAs are included to reflect the agreements that Indonesia

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