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An Analysis of Indonesia's Trade Strategy Amid the Dynamics of the Indo-Pacific Economic Architecture: A Comparative Study of the Regional Comprehensive Economic Partnership (RCEP) and the Indo-Pacific Economic Framework for Prosperity (IPEF)

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ABSTRACT
The background of this research is grounded in the growing rivalry between the United States and China, which has produced two economic cooperation frameworks with different characteristics. RCEP provides tangible benefits through market access, tariff reduction, and regional economic integration, while IPEF emphasizes modern economic standards, supply chain resilience, digital economy, clean economy, and fair governance. This research examines Indonesia's trade strategy amid the changing economic architecture of the Indo-Pacific through comparative research of the Regional Comprehensive Economic Partnership (RCEP) and the Indo-Pacific Economic Framework for Prosperity (IPEF). This study aims to analyze how Indonesia, as a middle power, applies a hedging strategy to optimize its national trade interests between these two frameworks. This research employed a qualitative approach using comparative study and documentation analysis of official documents, trade data, international institutional reports, and relevant academic literature. The findings indicate that Indonesia implements a hedging strategy through trade partner diversification, optimization of RCEP's economic benefits, fulfillment of IPEF commitments, and preservation of foreign policy autonomy. Indonesia's simultaneous participation in RCEP and IPEF is not contradictory; rather, it is complementary in strengthening Indonesia's position amid Indo-Pacific economic competition. The research implies the need for a strategic trade policy roadmap that balances economic interests, national autonomy, and Indonesia's commitment to regional stability.

INTRODUCTION

The Indo-Pacific region has emerged as a center of geopolitics. Not only is it a geopolitical center, but America calls it the geopolitical and geoeconomic gravity of the 21st century (Cannon & Rossiter, 2018; Chacko, 2016; Pan, 2014; Poon et al., 2024; Scott, 2018). The Indo-Pacific is already home to nearly 60% of the world's population (CNBC; 2022), and accounts for nearly 60% of the world's Gross Domestic Product (GDP; 2024). Plus, its geographical location makes the Indo-Pacific crossed by world trade routes. The influence and significance of the Indo-Pacific itself is getting stronger and the beginning of the 21st century is marked by a paradigm shift that was previously more common in using the term "Asia-Pacific" to "Indo-Pacific". This is due to the need to recognize the strategic role of India and the Indian Ocean in a wholesome geopolitical vision (Nath and Klingebiel; 2023). The United

States has even explicitly and openly stated that the Indo-Pacific is its top investment, diplomacy, and security priorities, while strengthening the Indo-Pacific as a global strategic axis (The White House; 2022).

However, behind its great economic potential, the Indo-Pacific has become an intense arena of contestation between two superpowers with great power and capital: the United States and China (Fong, 2024; Hu, 2020; Kliem, 2022; Medcalf, 2022; Steff, 2025). On the one hand, the United States under Donald Trump's leadership developed a Free and Open Indo-Pacific (FOIP) concept as a narrative to offset China's influence in the Indo-Pacific (Heiduk and Wacker; 2020). But on the other hand, China offers an infrastructure-focused Belt and Road Initiative (BRI) that covers 180 countries and has the potential to strategically strengthen Beijing's global influence (Nath and Klingebiel; 2023:3). This improvement in infrastructure connectivity is expected to increase trade volumes as well as bilateral investment (Donaubauer et al., 2018; Husseini et al., 2024; Wahab, 2024).

From this strategic competition, two economic architectures were born that represent different approaches from each other with fundamentally different approaches. First, the Regional Comprehensive Economic Partnership (RCEP) which was ratified in 2022. RCEP is a consolidation of the Free Trade Agreement between ASEAN and five partner countries, namely: Australia, Japan, New Zealand, China, and South Korea. As the world's largest trading bloc, RCEP covers 30.2% of the world's Gross Domestic Product (GDP), 29.6% of the world's population, 27.4% of international trade, and 29.8% of Foreign Direct Investment flows (Ministry of Trade of the Republic of Indonesia; 2023). RCEP is a mega-regional trade agreement designed to encourage more comprehensive economic integration between its member countries (Sandrina and Prastyono; 2024:3). In this partnership, all member states commit to eliminating 92% of all tariff posts that will be eliminated in the next 20 years (Salam; 2023:2).

Second, the Indo-Pacific Economic Framework for Prosperity (IPEF) initiated by the United States in May 2022. In contrast to RCEP, IPEF is not designed as a conventional partnership. This framework does not offer market access and tariff reductions that are generally present in a cooperation framework, but instead focuses on implementing high-standard commitments in specific areas, such as the Connected Economy (digital trade), Resilient Economy (supply chain resilience), Clean Economy (Clean Economy), Fair Economy (anti-corruption) (Congressional Research Service [CRS]; 2024). Katherine Tai, a U.S. trade representative, emphasized that the IPEF will present a new model of trade cooperation and reject the conventional FTA approach that she says harms the domestic sector and weakens supply chain resilience (CRS; 2024). Even without tariff incentives, the IPEF remains significant because it covers 40% of the world's GDP, 32.2% of the world's population, and represents 28.93% of total global trade (Fiscal Policy Agency-Ministry of Finance of the Republic of Indonesia; 2024). It became a strategic instrument for the US to set new trade rules in the Indo-Pacific.

Indonesia, geographically, is at the "heart" of the Indo-Pacific and has strong economic fundamentals. Based on data from the Central Statistics Agency (2025), Indonesia's population will reach 284 million people, making it the largest domestic market in ASEAN. Indonesia's goods trade balance is no joke, throughout 2022 Indonesia recorded a consistent surplus. This continued the positive trend for 64 consecutive months until the end of the year (Coordinating

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Ministry for Economic Affairs; 2023). If we look at Indonesia's Gross Domestic Product (GDP), Indonesia reached Rp23,821.1 trillion with a GDP per capita of 5,083.4 US dollars, and Indonesia's economic growth was able to be maintained above 5% for three consecutive years from 2022 (BPS; 2025). This large economy seems to affirm the great potential and opportunities for Indonesia to develop. Indonesia plays a key role in the variable dynamics of prevailing power in the Indo-Pacific (Abbondanza; 2022:414). Its high determination in ASEAN and its significant contribution in the Indo-Pacific region show that Indonesia is still considered a rising middle power given its material capabilities, G20 membership, ASEAN leadership, and diplomacy (Abbondanza; 2022).

The foundation of Indonesia's free-active foreign policy is a flexible foundation for Indonesia in establishing international cooperation. Indonesia implements an impartial stance by placing the national interest as a top priority (Sandrina and Prastyono; 2024:13). Pangestu et al. (2021:12) emphasized that Indonesia needs to appear as a sovereign subject, able to determine the direction of its foreign policy independently in accordance with national interests. This principle clearly underscores Indonesia's position to take sides in global competition, a commitment that is now being tested by the tug-of-war between the two superpowers in the region.

Precisely because Indonesia's position has such strong economic fundamentals, both the United States and China both hope that Indonesia will become its main partner and leave other partners in the economic architecture of RCEP and IPEF. China sees this RCEP as an instrument to strengthen the economic dependence of regional countries, including Indonesia, on Beijing (Sandrina & Prastyono; 2024:8). Meanwhile, the United States views Indonesia's participation in the IPEF as a key to realizing a vision of a free, open and resilient Indo-Pacific (The White House; 2022). This is where Indonesia's strategic dilemma comes from, two superpowers pulling it in opposite directions as if forcing Indonesia to choose one of them that is fundamentally very different. Indonesia is faced with a choice that is not easy, to stay in the RCEP with all its traditional benefits, or to join the IPEF with the modern economic standardization offered. This is also where the hedging strategy becomes a relevant analytical framework to be able to understand Indonesia's steps.

The first problem is structural. RCEP and IPEF have fundamentally different characteristics. RCEP focuses on liberalization and the reduction of trade barriers, one of which is through the elimination of tariffs, a real short-term benefit for Indonesia as an effort to increase Indonesia's exports. Projections show that Indonesia's participation in the RCEP will increase Indonesia's Gross Domestic Product (GDP) by 0.07% in 2040, as well as an increase in goods exports by USD5.01 billion (Salam; 2023:3). Furthermore, Park et al. (2021:2) estimate that if the implementation of this RCEP goes as planned, the income of member countries will increase by 0.6%, adding USD245 billion to regional revenue, and absorbing 2.8 million jobs.

However, its implementation is hampered by domestic constraints such as convoluted bureaucracy, corruption, insynchronization of the central-regional government, and weak institutions called behind the border constraints. Aprilianti (2019) found that institutional socio-political restrictions contribute a very large proportion to the trade gap, which is the difference between trade potential and its realization. Furthermore, Kalirajan (2007:86) emphasized that although a number of trade reforms have been carried out, there are still country-specific trade resistance that has not been touched by these reforms. On the other hand, the IPEF offers a modern economic framework that can gradually improve national standards in various areas, but lacks access and tariff incentives. Indonesia is faced with an interesting challenge because Participating in both simultaneously will create strategic complexity that Indonesia has never experienced in this century. Optimize the tangible benefits obtained from RCEP while preparing to meet the high standards in IPEF.

The second problem is geopolitical in nature. The intensifying competition between the United States and China creates explicit pressure to choose. The RCEP is perceived as a Chinese-controlled bloc, while the IPEF openly does not involve China in an "Exclusive Economic Club" designed as a strategic instrument of the United States to counter Beijing's influence (Jiang; 2023:16). Choosing either by balancing or bandwagoning means losing the benefits of either the traditional market access of the RCEP or the modern economic standards that exist in the IPEF. Furthermore, choosing a party also has the potential to damage relations with unelected parties and is contrary to Indonesia's foreign policy principle, namely freedom of activity which has been closely attached to Indonesia. Jiang (2023:11) also warns that this pressure to vote could also threaten ASEAN, as member states have different economic dependencies on the United States and China, let alone not all ASEAN members are included in the IPEF. This is different from RCEP which includes 10 ASEAN countries. This condition can worsen relations in the region if not handled wisely by each country.

The third problem is that it is academic, there has been no systematic study analyzing how Indonesia as a middle power manages its participation simultaneously in two fundamentally different economic architectures using hedging theory. The existing literature on hedging generally discusses the behavior of states in risk management (Ciorciari and Haacke; 2019:370). In practice, Indonesia has implemented this strategy by participating in RCEP and IPEF. But the effectiveness of hedging in the field of trading has not been analyzed comparatively and in-depth.

Although the literature on economic architecture in the Indo-Pacific has grown rapidly, most previous studies have tended to examine RCEP and IPEF separately. Studies on RCEP generally focus on GDP growth, Rules of Origin (ROO) technical bottlenecks, or domestic bureaucratic inefficiencies (Salam; 2023; Aprilianti; 2019). Meanwhile, the literature on the IPEF is still dominated by analysis of its essence as a political tool of the United States to suppress China's influence in the Indo-Pacific region, or criticism of the absence of market access and tariffs that have always been the main attraction in economic cooperation (Jiang; 2023). Several researchers also focus their studies on how Indonesia's role as a regional leader and bridge builder in maintaining regional stability (Agastia; 2020).

However, there is a significant literature gap in the study that systematically and comprehensively compares how Indonesia navigates two economic cooperation frameworks in which two superpowers compete with different fundamentals. The research that analyzes Indonesia's trade strategy in the midst of the RCEP and IPEF contests, which juxtaposes market opportunities and access in RCEP with digital transformation and supply chain resilience in IPEF is still very limited. In fact, without an in-depth analysis, Indonesia has the potential to only become a follower of the policies of a superpower (Hutabarat; 2022:7). In addition, a systematic comparative study of how Indonesia implements hedging strategies in balancing its

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participation in the two economic cooperation frameworks has not been carried out. This is the academic gap that this research will fill,

Therefore, this study is very important to critically map Indonesia's trade strategy in dealing with the dualism of the economic architecture in the Indo-Pacific, in each of which there are superpowers as the drivers of the current world economy by comparing the obstacles, opportunities and challenges that exist in RCEP and IPEF.

Based on the identification of the problems outlined above, this study aims to analyze Indonesia's trade strategy amid the dynamics of the Indo-Pacific economic architecture through a comparative study of RCEP and IPEF, specifically by examining how Indonesia as a middle power applies a hedging strategy to optimize its national trade interests between these two frameworks, comparing the characteristics, opportunities, and challenges of RCEP and IPEF in the context of Indonesia's trade interests, and evaluating the effectiveness of Indonesia's hedging strategy in managing its simultaneous participation in both economic cooperation frameworks. This study offers both theoretical and practical benefits. Theoretically, it contributes to the literature on middle power foreign policy and hedging strategies by analyzing how Indonesia navigates competing economic architectures in the Indo-Pacific, with a comparative framework for understanding middle power participation in two fundamentally different cooperation frameworks driven by rival superpowers. Practically, it provides policy recommendations for the Indonesian government by identifying strategic opportunities and challenges in RCEP and IPEF, assisting relevant ministries in designing a roadmap to optimize trade benefits while maintaining policy autonomy and regional stability, and serving as a reference for policymakers in navigating similar future dilemmas.

METHOD

Research Design

Research was a systematic process to analyze, develop, and interpret or solve a problem, while according to Rozaq, et al. (2026:1566), research is defined as the steps used to collect and analyze information to improve our understanding of a topic. More specifically, from another perspective, research is a series of scientific activities in order to answer a problem (Waruwu; 2024:198). The research must have theoretical provisions, and broad insights so that it can ask, analyze, and construct the object being studied more clearly (Rozaq, et al. 2026:1567). From this definition, the researcher on this occasion, the researcher chose research with a qualitative approach.

Indo-Pacific economy, particularly within the framework of RCEP and IPEF. This approach is relevant because the research focuses on the questions of "how" and "why," as well as seeks to interpret the meanings behind official state policies that cannot always be explained through quantitative data. The study also used a comparative study to compare RCEP and IPEF as two different economic cooperation frameworks, but both were actively followed by Indonesia. Data is collected through literature studies and documentation studies from official and credible sources. To maintain the validity of the data, this study uses source triangulation through primary and secondary data. With this approach, this study is expected to be able to map Indonesia's trade strategy as well as identify opportunities and challenges in dealing with the duality of RCEP and IPEF.

RESULTS AND DISCUSSION

Indonesia at RCEP and IPEF

This chapter analyzes Indonesia's trade strategy in the context of the dynamics of the Indo-Pacific economic architecture, especially the simultaneous participation in RCEP and IPEF as *a middle power,* through four *predetermined hedging* indicators, namely: (1) partner diversification, (2) optimization of RCEP economic benefits, (3) fulfillment of commitments in IPEF, and (4) policy autonomy.

The rivalry of the United States with China brings the international order to new uncertainties (Putri et al.; 2025:1), as the country with the largest economy in Southeast Asia is located in the heart of the Indo-Pacific at the crossroads of the Indian Ocean and the Pacific Ocean, any choice of Indonesia's economic policy will have significant geopolitical implications. In the midst of these pressures, two economic cooperation frameworks are present at the same time. Indonesia's leadership in the G20 reflects its diplomatic capacity as an *active middle power* in multilateral diplomacy (Coordinating Ministry for Economic Affairs of the Republic of Indonesia; 2022).

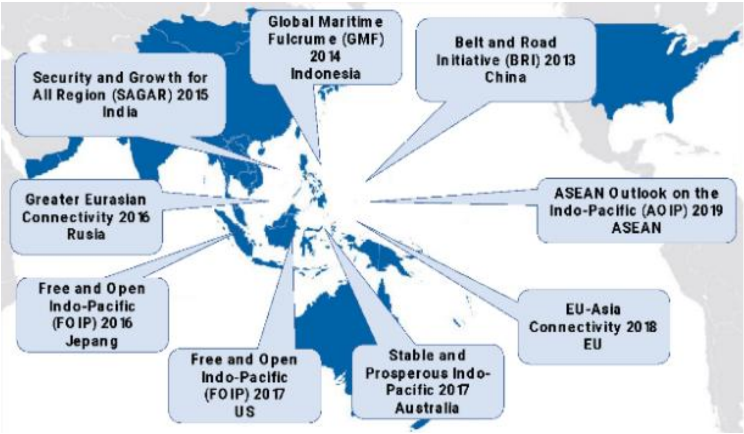

Figure 1. Indo-Pacific Under Political and Economic Cooperation

Source: Muhammad Haekal Nasution and Windy Dermawan (2025:163).

Complexity of the architecture of cooperation in the Indo-Pacific in Figure 4.1. This complexity is the direct context why Indonesia as *a middle power* country does not take one cooperation, but navigates various cooperation frameworks simultaneously, including RCEP and IPEF. The RCEP agreement is a milestone for Indonesia because Indonesia is the originator of the RCEP concept which consolidates the four ASEAN+1 Free Trade Agreement (FTA) free trade agreements. RCEP member countries are a source of Foreign Investment (FDI) flows for Indonesia. In 2020, 72% of FDI entering Indonesia came from RCEP (Coordinating Ministry for Economic Affairs of the Republic of Indonesia; 2021**) member countries.** Meanwhile, FDI from RCEP countries in 2025 will reach 64% of Rp 576.9 trillion of Indonesia's total FDI of Rp 900.9 trillion. These findings confirm that Indonesia's attachment to RCEP countries is very strong, so it is necessary to consider the high dependence of investment in RCEP countries.

RCEP allows China to deepen its interdependence on regional economies as well as minimize the influence of its opposition. For China, RCEP has important geopolitical

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significance because it allows Beijing to expand its economic influence in the region (Sandrina and Prastyono; 2024:8). Meanwhile, the IPEF became a bargaining tool for the United States to exclude China from mapping out new rules in the region. This simultaneous participation affirms Indonesia's trade strategy that is not biased towards only one party.

Table 1. Differences in Characteristics of RCEP and IPEF

Analysis	**RCEP**	**IPEF**
Initiator	ASEAN	United States
Valid year	January 2022	May 2022
Number of Members	15 Countries	14 Countries
Main Cornerstones	Market access, trade liberalization and reduction of trade barriers as well as Harmonization of ASEAN+1 into one complete regulation for supply chain efficiency of traditional FTA regions focus on tariff elimination, market liberalization and uniform ROO integration and 92% tariff elimination	High standards on the digital economy, labor rights, environment and anti-corruption but no tariff reduction
Legal Status	Legally binding, Binding and ratified and ratified by parliament	Passed by the executive There is no ratification from parliament so it can be canceled by the president
Key Focus	Reduction of barriers and increase in trading volume	Open economy, supply chain, clean economy and fair economy
Violation Sanctions	There is a dispute resolution mechanism	There are no formal sanctions governing this
Economic Coverage	30,2 % PDB global	40% PDB global
Member Engagement	All parts of the cooperation are mandatory	Member states can choose which economic pillars they will follow
Risks for Indonesia	Trade dependence on China	The political instability of the United States and the absence of market access
Benefits for Indonesia	Short- and medium-term economic benefits with increased trade volumes and the economy	Economic modernization and improvement of economic standards
Measurable impact for Indonesia 2022-2025	maintaining the trade surplus integrating 6,050 tariff posts in the regional supply chain.	Advancing Digital Commerce cooperation in the clean energy sector and green economy with investment potential of USD 25 billion.

Source: Processed by authors from various sources (Salam; 2022; Jiang; 2023; CRS; 2024; Ministry of Trade of the Republic of Indonesia; 2023; Hutabarat; 2022; Coordinating Ministry for the Economy; 2024)

Based on the above characteristics, RCEP and IPEF have quite different fundamentals, not only in terms of form but also in terms of the benefits presented. Comparative analysis in

Table 4.1 shows that RCEP and IPEF are not alternative instruments that replace each other, but rather two complementary instruments in Indonesia's *hedging* strategy. RCEP functions as *a return maximizing* instrument (Chan; 2020:93). Indonesia has gained real benefits in the form of increased trade volume, balance sheet surplus, and integration of thousands of tariff posts. Instead, IPEF functions as a *risk contingency instrument* (Chan; 2020:93). IPEF does not provide instant market access, but it provides benefits through other pathways, such as improving regulatory standards, securing funding for the energy transition, and reducing reliance on a single supply chain.

This study argues that Indonesia as a skeptical *middle power* is put forward by Abbondanza (2022:5) who implements *the Soft Hedging* strategy as stated by Choi (2017:5). As a middle power that rejects partisanship, Indonesia chooses *a hedging strategy* rather than *bandwagoning* and *balancing* in implementing a trading strategy to mitigate risks and avoid over-dependence on one party. This argument is clearly proven through four success indicators that form the framework for the analysis of the entire discussion of this chapter.

Applying a hedging strategy in optimizing trading strategies

Partner Diversification

Indonesia's partner diversification is measured through investment flows and trade flows. In terms of investment, Indonesia continues to receive FDI from both major powers, namely the United States and China, although China's investment value remains higher. In 2025, Indonesia's total FDI reached IDR 900.9 trillion, with Singapore as the largest investor, followed by China and the United States. This pattern indicates that Indonesia's hedging strategy is operating because Indonesia maintains economic relations with both superpowers simultaneously. However, dependence on China remains strong, particularly through strategic projects such as KCIC, nickel smelters, and industrial estate investments.

In terms of trade, Indonesia's exports to RCEP countries are still dominated by China. Exports to China increased from USD 64.9 billion in 2023 to USD 67.0 billion in 2025, accounting for almost a quarter of Indonesia's total exports. Meanwhile, exports to Japan declined, while Vietnam showed positive growth as a new diversification opportunity. Within the IPEF framework, Indonesia's exports to the United States increased significantly from USD 23.3 billion in 2023 to USD 31.0 billion in 2025. However, exports to India and Japan decreased. On the import side, Indonesia also remains highly dependent on China, particularly in non-oil and gas imports, which reached 41.60% in 2025. Therefore, Indonesia's hedging strategy has not yet been fully optimized because partner diversification remains concentrated on China and the United States. Nevertheless, the increase in exports to the United States is a positive development. Through IPEF, Indonesia has strengthened its economic engagement with the United States without cutting its trade relations with China.

Optimizing the Economic Benefits of RCEP

The optimization of RCEP's economic benefits shows that Indonesia has actively participated in the framework through legal ratification, tariff implementation, and institutional involvement, including its role in the RCEP Support Unit. However, the benefits gained by Indonesia remain limited. Although RCEP provides tariff elimination, rules-based trade, and regional market access, Indonesia's welfare gain is projected to be relatively low compared to other member countries. Indonesia's exports to RCEP countries are still dominated by raw and

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intermediate commodities, especially mineral fuels, iron and steel, nickel, and other natural-resource-based products. This structure makes Indonesia vulnerable to global commodity price fluctuations and energy transition policies.

Export data from 2023 to 2025 show that mineral fuel exports declined in several major RCEP markets, including China, Japan, and Singapore. Meanwhile, nickel, iron and steel, automotive products, and electrical machinery showed growth potential, particularly in China, South Korea, Vietnam, and the Philippines. However, Indonesia’s downstream industrialization has not yet been fully optimized because many exports are still intermediate products rather than high-value final goods such as electric vehicle batteries. Overall, Indonesia’s exports to RCEP countries grew significantly before RCEP came into force, but growth slowed after ratification, indicating that RCEP’s benefits have not been maximized.

In contrast, IPEF offers Indonesia an opportunity to complement RCEP by supporting supply chain resilience, clean economy development, critical minerals cooperation, and green infrastructure investment. Indonesia has shown commitment by forming an IPEF negotiating team, ratifying the Supply Chain and Clean Economy pillars, and actively promoting critical minerals, clean energy, hydrogen, sustainable aviation fuel, and small modular reactor cooperation. Although IPEF does not provide tariff incentives and remains politically uncertain due to its executive-agreement nature in the United States, it gives Indonesia flexibility to pursue regulatory reform and economic transformation. Therefore, Indonesia’s participation in both RCEP and IPEF reflects a soft hedging strategy, allowing Indonesia to gain economic benefits while maintaining strategic autonomy between China and the United States.

Indonesia's Opportunities and Challenges in the Midst of RCEP - IPEF

Strategic Opportunities

Indonesia's participation in RCEP is projected to have a significant *spillover effect*. Based on the projections of the Ministry of Law and Human Rights of the National Legal Development Agency (2022:100), this *spillover effect* is expected to increase Indonesia's exports by 7.2%, which directly supports the second *hedging indicator*, the optimization of RCEP's economic benefits. In fact, five years after implementation, Indonesia's exports are predicted to increase by 8-11% and investment to increase by 18-22% (*Center for Indonesian Policy Studies*; 2020). This collaboration will increase GDP growth by 0.03% in 2021 or equivalent to IDR 5.11 trillion, and increase to 0.05% in 2030 equivalent to IDR 13.21 trillion, and 0.07% in 2040 or equivalent to IDR 38.33 trillion (Ministry of Law and Human Rights National Legal Development Agency; 2022:93).

Table 2. Indonesia's flagship products to RCEP countries using the RCA method

Destination Country	Featured Products Indonesia
South Korea	HS 90810 (Nutmeg) HS 230320 (Bran, sharps and other residues) HS 382311 (Stearic acid) HS 460212 (Basketwork) HS 480300 (Toilet/facial tissue) HS 520611 (Cotton yarn; single)
China	HS 90620 (Cinnamon) HS 151329 (Palm kernel/babassu oil) HS 151790 (Edible mixtures/preparations of animal or vegetable fats or oils) HS 230660 (Oil-cake) HS 382311 (Stearic acid)
Australia	HS 90620 (Cinnamon) HS 151329 (Palm kernel/babassu oil) HS 151790 (Edible mixtures/preparations of animal or vegetable fats or oils) HS 230660 (Oil-cake) HS 382311 (Stearic acid)
Japan	HS 3034 (Skipjack) HS 400122 (Technically specified natural rubber) HS 441294 (Plywood, veneered panels) HS 460122 (Mats; matting) HS 520514 (Cotton yarn)
Thailand	HS 610690 (Blouses; shirts; shirt-blouses) HS 850610 (Cells and batteries) HS 960910 (Pencils and crayons) HS 843149 (Machinery parts) HS 850870 (Parts of vacuum cleaners)
Singapore	HS 480550 (Paper and paperboard) HS 840490 (Boilers; auxiliary plant) HS 842919 (Bulldozers and angledozers) HS 401693 (Rubber; vulcanized) HS 481390 (Paper; cigarette)
Laos	HS 610210 (Coats) HS 520922 (Fabrics; woven) HS 521021 (Fabrics; woven) HS 930599 (Firearms; ammunition parts) HS 930621 (Ammunition; shotgun cartridges)
Cambodia	HS 380210 (Carbon; activated) HS 270119 (Coal) HS 294000 (Sugars, chemically pure) HS 270112 (Coal; bituminous) HS 240220 (Cigarettes containing tobacco)

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Brunei Darussalam	HS 610690 (Blouses; shirts; shirt-blouses) HS 940159 (Seats; cane or similar material) HS 831130 (Rods and wire) HS 610451 (Skirts) HS 761511 (Pot scourers)
Malaysia	HS 230650 (Oil cake and other residues) HS 610329 (Ensembles) HS 520411 (Cotton sewing thread) HS 520411 (Ignition or starting equipment) HS 382450 (Mortars and concretes)
Philippines	HS 844590 (Textile machinery) HS 441011 (Particle board of wood) HS 900640 (Cameras; photographic) HS 521215 (Fabrics, woven of cotton) HS 480550 (Paper and paperboard)
New Zealand	HS 200949 (Pineapple juice) HS 230600 (Oil-cake) HS 310390 (Mineral/chemical fertilizers) HS 440210 (Wood charcoal of bamboo) HS 460212 (Basketwork)
Vietnam	HS 760519 (aluminium) HS 400941 (Rubber; vulcanized) HS 290321 (Chloroethylene) HS 848310 (Transmission shafts and cranks) HS 600633 (Fabrics; knitted or crocheted)
Myanmar	HS 300432 (Medicaments) HS 551412 (Fabrics; woven) HS 482020 (Paperboard; exercise books) HS 480300 (Tissue; towel; napkin or similar) HS 270119 (Coal)

Source: Processed from the Directorate General of International Trade Negotiations of the Ministry of Trade (2023).

Based on the *Revealed Comparative Advantage* (RCA) analysis method in table 4.7, Indonesia's exports to RCEP countries show comparative advantages spread across several sectors. To China and Australia, Indonesia has an advantage in natural resource sector products, such as palm oil and its processing. To Japan, Indonesia's advantage is in natural rubber products and fisheries. Meanwhile, to ASEAN countries, Indonesia has an advantage in textile products. This diversification is in line with the first indicator of *hedging* success, namely partner diversification, data from the RCA above shows that Indonesia's exports are spread to various partner countries, not only to China. However, it still shows a high dependence on China, This is a sign that the diversification shown by the RCA has not been fully realized and is a strategic step that needs to be accelerated.

RCEP will strengthen Indonesia's position in the world of international trade, considering Indonesia's role as the initiator and chairman of the negotiations (Ministry of Law and Human Rights National Legal Development Agency; 2022:91). If the RCEP focuses on tariffs and the reduction of trade barriers, the IPEF actually offers economic modernization. United States

Trade Representative (*United States Trade Representative*/USTR), Katherine Tai, stated that the IPEF is a new model that is more appropriate to address 21st-century issues and advance worker-centered policies and global economic resilience (Congressional Research Service; 2023).

Through pillar II that Indonesia has agreed to and comes into effect in February 2024, Indonesia has access to mitigate global logistics disruptions through the *Crisis Response Network* which facilitates emergency communication and coordination during supply chain disruptions. Indonesia uses IPEF as one way to attract sustainable infrastructure investment. As mentioned earlier, the United States hinted that it would disburse funds of USD 25 billion. This proves that IPEF provides concrete benefits beyond tariff access. In addition, Indonesia also plays a role as a driver of the Critical *Minerals Dialogue issue* so that it is included in pillar I of IPEF. However, the success of the IPEF depends on the extent to which the government is able to formulate policies that are in line with national interests, including strengthening investment regulations and supporting the MSME sector (Warta Fiscal; 2024:4).

In pillar III of the Clean Economy, partner countries seek to expand investment opportunities, spur innovation, and improve people's livelihoods (Hutabarat; 2022:6). This opens up opportunities for Indonesia by entering into various strategic projects. Meanwhile, Pillar I of Digital Trade ensures that Indonesia continues to keep up with developments and is not left behind in global digital standardization.

Based on the 2025 National Survey on Financial Literacy and Inclusion by the Financial Services Authority, Indonesia's financial literacy index reached 66.46% and the financial inclusion index was 92.74%. In comparison, Malaysia has an overall financial literacy index of 59.1 out of 100 in 2024 (Bank Negara Malaysia; 2024). Although not in the same year, this data shows that financial literacy in the ASEAN region still needs to be improved and requires cooperation from various parties to accelerate it. This data indicates Indonesia's urgency in utilizing the IPEF Connected Economy pillar which directly includes digital literacy programs. With the financial literacy index still far from the maximum, this creates room to accelerate significantly through the IPEF framework. On the financial side, IPEF facilitates the establishment *of* a pipeline of clean energy and strategic infrastructure projects to attract public-private financing (Shafira; 2023:5).

There is a strategic opportunity where RCEP is used as a source of real profit to become financial capital in IPEF regulatory adjustments. This allows Indonesia to carry out economic transformation. The simultaneous participation of the two is not contradictory, but rather mutually reinforcing in the long-term transformation of Indonesia's economy. Overall, the opportunities from RCEP and IPEF cumulatively support Indonesia's four *hedging* indicators. RCEP export opportunities support the first and second *hedging* indicators. Investment opportunities, ratification and the formation of special teams support the third indicator. In addition, the combination of the two, which is without full partiality and intervention, supports the fourth indicator. The combination of RCEP as *a return maximizing* and IPEF as *a Risk Contingency* (Chan; 2020:93) proves that Indonesia's participation in both is a measurable strategy.

Comparison of the Effectiveness of Hedging Indonesia RCEP and IPEF

This subchapter presents a comparison that assesses the effectiveness of the implementation of Indonesia's *soft hedging* strategy based on three dimensions of analysis set

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on theoretical objectives to maximize profits in the midst of rivalry between the United States and China. There are strong economic reasons for Indonesia to join the IPEF, namely strengthening economic ties with the United States and other member states (Negara and Wihardja; 2023:148). Based on the National Medium-Term Development Plan (RPJMN), Indonesia's foreign policy priorities rely on strengthening economic diplomacy, protection diplomacy, sovereignty and nationality diplomacy, as well as increasing Indonesia's contribution and leadership in the region and the world (Foreign Policy Strategy Agency of the Ministry of Foreign Affairs of the Republic of Indonesia; 2023:135).

Table 3. The Effectiveness of Hedging in Indonesia

Dimensions of Analysis	Regional Comprehensive Economic Partnership (RCEP)	Indo-Pacific Economic Framework for Prosperity (IPEF)
Market access and Rates	Successfully secured cooperation for tariff elimination of 92% of tariff posts. Provide certainty of market access to 15 partner countries in the Indo-Pacific region.	explicitly excludes traditional market access so that there is no reduction in tariffs.
Economic Standards	Focusing on harmonizing the origin of goods and standardizing rules through ROO and Regional Value Content, but its utilization is hampered by domestic capacity and bureaucratic obstacles.	offers stricter standards regarding the digital economy, the environment and anti-corruption, but negotiations on pillar I are still stagnant and the domestic capacity of MSMEs is still low.
Policy autonomy	RCEP provides legal certainty through the ratification of Law No. 24 of 2022 and strengthens ASEAN's centrality as the main initiator. Without being trapped in the dominance of the superpowers of the United States and China.	The IPEF is only based on the Executive without congressional ratification, so it is very risky to the political conditions in the United States but on the other hand it becomes a balance of power in the region so that there is no single domination.

Source: Processed by the author (Hutabarat; 2022; Sandrina and Prastyono; 2024; CIPS; 2020).

Hedging strategies on market access and tariff dimensions show high effectiveness through RCEP. Indonesia has managed to extract real material economic benefits, a projected increase in goods exports of USD 5.01 billion by 2040, the elimination of 92% of tariff posts, the integration of *Rules of Origin*, and the existence of *Regional Value Content* (RVC). To ensure that RCEP is truly beneficial for Indonesia, it is necessary to ensure the entry of investors, both domestic and foreign, in the real sector of the manufacturing industry (*Center for Indonesia Policy Studies*; 2020). In contrast, the IPEF does not provide any tariff incentives at this time, although it does rule out the possibility that future may change, so the IPEF's effectiveness in driving short-term GDP through trade is still very limited. However, the positive correlation between the linkage of IPEF and the increase in Indonesia's exports to the United States by 33.2% shows that the benefits of IPEF work through different channels. Not tariffs, but trust and strategic position.

In the dimension of economic standardization and modern regulations, Indonesia shows weaknesses, especially in the IPEF. Although IPEF offers benefits through its four pillars, namely *Connected Economy, Resilient Economy, Clean Economy,* and *Fair Economy,* Indonesia faces severe challenges in the form of *behind the border constraints* such as bureaucratic inefficiency and corruption, and the limitations of MSMEs making it difficult for the domestic sector to meet international standards. The benefits of regulatory modernization have not been felt at their maximum because domestic capacity is not yet ready. Thus, the decrease in HS 27 exports by 28% to China and the dominance of intermediate products in exports, indicates that Indonesia is not ready to fully utilize RCEP in this dimension.

In the dimension of policy autonomy, Indonesia strongly upholds the principle of freedom of activity that has always been upheld since the country's establishment. By participating simultaneously in both cooperation, Indonesia has succeeded in reducing over-dependence on one party. Indonesia's foreign policy must be active, not something that is expected to be passive attitudes and actions, Indonesia must be able to become a subject that can determine its own policies (Pangestu et al.; 2020:12). Supported by *the ASEAN Outlook on the Indo Pacific* (AOIP) as one of the umbrellas and supporters of cooperation, Indonesia ensures that its participation in RCEP and IPEF remains at the centrality of ASEAN. Indonesia's diplomacy at the IPEF is political and strategic in the balance of interest of economic cooperation between the United States and China (Hutabarat; 2022:9). With the adoption of a free-active foreign policy approach, Indonesia's main goal is to maintain the stability of diplomatic relations between countries while striving to realize economic justice (Sandrina and Prastyono; 2024).

Indonesia' *s hedging* strategy as a *skeptical middle power* (Abbondanza; 2022:415) with *a soft hedging approach* shows effective and strong results on the dimensions of market access and tariffs through RCEP and policy autonomy. However, it is undeniable that this strategy is still weak in economic standardization and regulation. This is due to two main factors. First, domestic capacity barriers. Policies or structural adjustments need to be prepared and implemented immediately so that Indonesia can make the most of RCEP opportunities (CIPS; 2020). Second, the uncertainty of the United States' long-term commitment through the IPEF which was only approved through the executive without the ratification of Congress.

Indonesia is able to balance economic interests that tend to be more dominant in China while maintaining diplomatic sovereignty with the United States. In theory, these findings confirm that RCEP as an instrument *return maximizing* while IPEF as *risk contingency* (Chan 2020:93). Indonesia's future challenge is to transform its political advantages, market access, and policy autonomy into advantages that can reform domestic capacity to compete in the global market.

Strategic Recommendations: Roadmap for Relevant Ministries

Based on the analysis of the effectiveness of *Indonesia's soft hedging* strategy in chapter IV, this section formulates strategic recommendations for relevant ministries. These recommendations are structured over three main time frames that consider domestic capacity as well as the geopolitical dynamics identified in this study.

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Short Term (2025-2027)

As a middle power in the architecture of the Indo-Pacific region, Indonesia is taking measurable strategic steps to maximize the benefits of the duality of economic cooperation between RCEP and IPEF. The focus of this period is mainly on overcoming various domestic barriers to absorbing market access offered by the 15 member countries of the RCEP in the Indo-Pacific region.

First, the government needs to deregulate imports in strategic sectors to facilitate the acquisition of raw materials, which in turn will be able to increase the competitiveness of Indonesia's exports in the region. Second, MSME education regarding the Rules of Origin provisions in RCEP must be intensified so that MSMEs can optimally utilize the tariff reduction facilities presented, as recommended by the Center for Indonesia Policy Studies (2020). Third, Indonesia must prioritize resolving bureaucratic obstacles and improving the efficiency of the licensing system, so that the ease of doing business in Indonesia can be better. Fourth, the simplification of customs procedures needs to be expedited to facilitate export-import flows. Finally, the use as Executive Director of the RCEP Support Unit (Antara; 2024), must be maximized as a means of coordination, technical assistance, and strengthening national capacity in implementing the agreement.

Medium Term (2027-2030)

In this period, Indonesia needs IPEF as an instrument to carry out regulatory transformation. First, standardize pillar I (Connected Economy) in the digital sub-economy, especially by adjusting personal data protection laws and digital data sovereignty policies to be in line with safe and reliable cross-border data flows. Second, Indonesia needs to utilize the Catalytic Capital Fund to be able to finance energy transition projects, including accelerating the realization of 21 green infrastructure projects that have been prepared. Third, Indonesia must optimize its position as the owner of the world's largest nickel reserves in order to lock Indonesia's position in the global battery supply chain. Fourth, economic benefits in the form of an increase in the trade surplus in RCEP need to be allocated to fund structural reforms and infrastructure improvements, as well as optimize RCEP as a return maximizing instrument (Chan; 2020:93).

Long Term (2030-2045)

One of the targets that needs to be pursued is to ensure Indonesia as the center of the global supply chain of electric vehicle batteries. For this reason, Indonesia needs to implement appropriate standard regulations, in order to increase exports, both commodities and manufactured products, to developed countries such as the United States, the European Union, Japan and Australia. Beyond that, Indonesia is obliged to consistently implement downstream policies in leading sectors, so that it can move from just a supplier of raw materials to a key player in the global supply chain. Another strategic step is to strengthen industrial and technological capacity to reduce dependence on a single supplier, while increasing national competitiveness amid regional geopolitical dynamics.

CONCLUSION

This study analyzes Indonesia’s trade strategy amid the changing Indo-Pacific economic architecture, particularly its simultaneous participation in RCEP and IPEF. Using a qualitative comparative approach and four indicators of hedging success, Indonesia is identified as a skeptical middle power that applies a soft hedging strategy in navigating the rivalry between the United States and China. This strategy is considered rational because Indonesia is too significant to merely follow one major power, yet not dominant enough to shape regional policy unilaterally. Therefore, hedging aligns with Indonesia's free-active foreign policy principle. The findings show mixed results across the four indicators. Partner diversification has been partially achieved, as exports to the United States increased significantly, although dependence on China remains high. The optimization of RCEP benefits remains limited because export growth slowed after ratification, welfare gains are relatively low, and Indonesia's export structure is still dominated by commodities and intermediate products. Meanwhile, IPEF commitment fulfillment has been substantially achieved through several presidential regulations, the formation of a negotiating team, and Indonesia's active role in clean economy and supply chain initiatives. Policy autonomy is also consistently maintained, as Indonesia does not explicitly side with either the United States or China. RCEP functions as a return-maximizing instrument by providing market access, while IPEF serves as a risk-contingency instrument that supports economic modernization. However, Indonesia still faces challenges such as bureaucratic barriers, low utilization of Rules of Origin by MSMEs, dependence on commodity exports, and uncertainty over the continuity of the United States' commitment to IPEF. Overall, Indonesia's hedging strategy is effective in strategic and diplomatic dimensions, particularly in maintaining autonomy and balancing relations with major powers. However, its economic effectiveness remains limited due to domestic capacity constraints and the need for stronger export diversification and industrial upgrading conclusion can also be written things that will be done related to the next idea of the research.

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