

FEASIBILITY OF INDONESIA-TAIWAN ECONOMIC COOPERATION ARRANGEMENT

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Feasibility Study

1. Center for Political Studies, Indonesia and Chung Hua Institute for Economic Research, Taiwan conducted joint study in 2012 about feasibility to establish Economic Cooperation Arrangement (ECA) between Indonesia and Taiwan.
1. The feasibility study analyzed 2 main aspects:
 1. Potential impacts of ECA on Bilateral Trade between Indonesia and Taiwan.
 2. Potential regulatory cooperation under ECA scheme between Indonesia and Taiwan.

Tools of Analysis

- **GTAP** (Global Trade Analysis Project)
 - To analyze the impact of ECA in the general equilibrium and in the aggregated level.
- **SMART** (Single Market Partial Equilibrium Simulation Tool)
 - To analyze the impact of ECA in the partial equilibrium and disaggregated level.

Existing Condition of Indonesia-Taiwan Economic Cooperation

1. Trade

- As of 2013, Taiwan is Indonesia's 10th largest trading partner.
- Indonesia is Taiwan's 11th largest trading partner.

2. Investment

- Taiwan is Indonesia's 11th largest foreign direct investor in the period 2010-2013 with total investment about 1,34 Billion US\$.

3. Migrant workers

- As of 2013 = 210 thousand workers
 - 80 % = Domestic Foreign Workers
 - 15 % = Manufacturing and construction Workers
 - 5 % = Ship crew

4. Tourism

- A hundred flights Taiwan-Indonesia in a week.
- Taiwanese tourists= 216,5 thousand tourists (2012)

The Potential Impacts of ECA on Macroeconomic

Macro Indicators	Indonesia
Welfare (US \$ Million)	28
Economic growth (% change in GDP quantity index)	0.006
Inflation (% change in GDP price index)	0.051
Employment (3 largest selected sectors)	
Demand of unskilled labor (% change)	Wearing apparel (1.5)
	Textiles (0.62)
	Motor vehicles & parts (0.49)
Demand of skilled labor (% change)	Wearing apparel (1.51)
	Textiles (0.63)
	Motor vehicles and parts (0.49)

Source: GTAP Result

The Potential Impacts of ECA on Sectoral

Impacts	GTAP Result	Note
Outputs	The overall potential growth of 27 sectors is 1.16 %.	There are 7 sectors that will experience positive growth of output, which are: (1) Wearing apparel, (2) Textiles, (3) Motor vehicles and parts, (4) Electronic equipment, (5) Food products nec, (6) Fishing, (7) Metals nec.
Bilateral Export and Import	Indonesian export to Taiwan increase for all selected liberalized sectors	The top five of Indonesian exports to Taiwan are: (1) Meat product nec, (2) Wearing apparel, (3) Motor vehicle-parts, (4) Food product nec, (5) Textiles
Trade Balance (TB)	Among 27 sectors, potential TB surplus: Indonesia: 11 sectors Taiwan: 12 sectors	Five biggest sectors that have surplus on TB are: (1) Wearing apparel, (2) Motor vehicle product and parts, (3) Food nec, (4) Electronic equipments, (5) Textiles.

Source: GTAP Result

Potential Impacts of ECA on Indonesia's Trade Partners

- From Import Perspectives:
 - China, Japan, and Singapore will be the most affected countries of the free trade between Indonesia –Taiwan. (Korea, Malaysia, Thailand, India, Canada, Belgium, France)

Country	Trade Diversion	
	Sector	Amount (Million USD)
China	6	18.28
Japan	5	17.24
Singapore	7	10.47

Source: SMART Result

Potential Regulatory Cooperation under ECA Scheme

ECA between Indonesia and Taiwan should be designed to cover trade cooperation and certain aspect related to the trade. Regulation in the certain aspects is needed to strengthen the Indonesia's business entity, particularly SMEs. In the medium and long term perspectives, the cooperation will stimulate the export performance of SMEs.

Aspects	Important Issues
Customs Procedures and Trade Facilitations	Additional/informal cost in customs clearance, illegal trader and long clearance times.
Technical Barriers to Trade	Traffic congestion, lack of infrastructure-poor connectivity, delay in custom clearance and long delay in shipping.
Sanitary and Phytosanitary Measures	Certification particularly for the agricultural products, foods and beverages.
Capacity Building of Human Resources in SMEs	Skill of management, transfer of technology, access to export

Political Economy Calculation

- Regional Dynamics
 - ASEAN Economic Community (AEC)
 - ASEAN Plus Six (China, India, Japan, South Korea, New Zealand, Australia)
 - Regional Comprehensive Economic Partnership (RCEP)
 - Trans-Pacific Partnership (TPP)
- Bilateral Dynamics
 - Taiwan-New Zealand FTA
 - Taiwan-Singapore FTA
- China-Taiwan ECFA
- National Dynamics: leadership change

The Future of ECA

- Indonesia's Policy Orientation (post-presidential election) → Domestic priorities or regional/global agenda?
 - Domestic priorities: promoting democracy, fulfillment of basic needs, economic growth, poverty reduction, sustainable development.
 - Global agenda: post-MDGs, trade liberalization, global justice, environment, etc.
- Indonesia-Taiwan ECA based on national priority:
 - Inclusive Economic Growth & beyond: GDP + HDI (education, health, economy access to the people/poor).

The Way Forward

- Build common understanding about the ECA.
- Bilateral investment agreement
- Priority sectors: Agriculture (food & beverage), Textile & Textile products, Electronics & Automotive, Tourism & Aqua Culture, Capacity Building of SMEs (human resources management, technology transfer).
- Level of cooperation: sub-regional, national, provincial, city – sister province or sister city agreements focus on certain sectors.

THANK YOU

