

CHAPTER III

ECONOMIC COOPERATION ARRANGEMENT (ECA)

This chapter will explain about the ECA and how it can help the relation become more structured. There are the framework of ECA and the strategic plans. This chapter will also show the progress of ECA in which now has been postponed. However, there are the two successful joint studies conducted that show the potential aspects that will be maximized if ECA is applied.

ECA is not only conducted by Indonesia but also in several countries and regional organizations. One of the reasons for creating the ECA by Taiwan is to decrease its dependency to China since China has been the biggest trading partner of Taiwan so far. Taiwan also wants to reduce its misconception that it is being marginalized in the East Asian economic (Jen, 2012).

In the case of the relation with Indonesia, which has no diplomatic ties, ECA is expected to help both countries to have a clear scheme. The clear scheme that is created by ECA also could help the relation become more structured. As both countries are the members of WTO, the ECA also is created based on its principles.

A. Framework of ECA and its Cooperation with Other Countries

Economic Cooperation Arrangements (ECA) is a form of cooperation that is initiated by Taiwan. It is established to minimize Taiwan's economic dependence on China, after its independence, Taiwan still has a huge dependence on China. It is to prove to China that Taiwan is a country that could stand and

interact with other countries since it has declared its independence from mainland China.

The president of Taiwan, Tsai Ing Wen, stated that Taiwan is not a part of 'One China' (Phillips, 2016). She also believes that Taiwan needs a 'new model of economic development' that hopefully could make Taiwan's economy more stable. By reducing the economic dependency on China, Taiwan can enhance its economy. The market also can be widened not only by the single-market with China.

Therefore, ECA is one of the great strategies for Taiwan to enhance the economic cooperation with other countries, in this case, with Indonesia. Even though China has limited Indonesia-Taiwan relation by One China Policy it does not mean that by only the economic cooperation, the relation could not be developed.

A.1. Framework of ECA

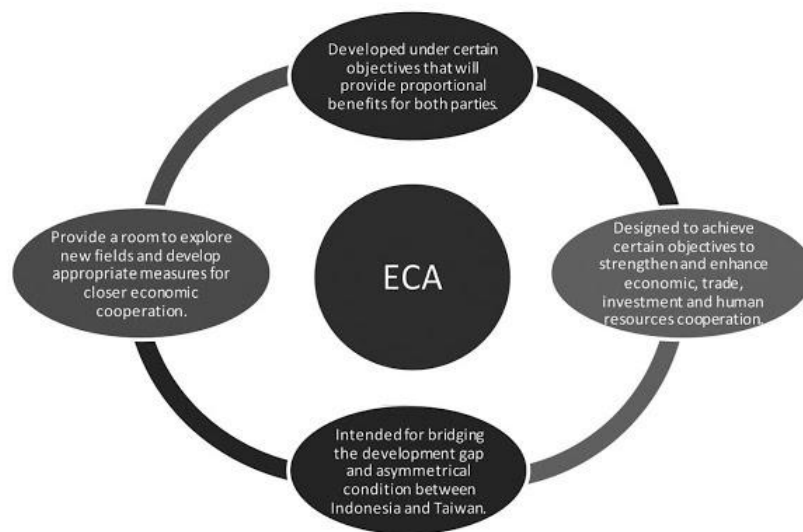
Economic Cooperation Arrangements (ECA) is designed based on the national priority of both countries (Elisabeth, 2014). This will include the economic growth that will impact to GDP and HDI for both countries. Basically, the framework gives further economic relation between Indonesia and Taiwan.

As both countries are the members of the WTO, the bilateral relation that is conducted should meet the principles of WTO explained in the article XXIV of GATT and Article V of GATS (Elisabeth & Tu, 2014). It is crucial to pay attention that FTA should be applied in the bilateral or multilateral relation of the

members of WTO. The principles should be considered to arrange the framework of ECA.

The framework of ECA is basically similar with FTA that will allow Indonesia and Taiwan to get a freer economic cooperation (Elisabeth; Hsia Tu, 2014). All kinds of economic cooperation between both countries will be easier. ECA allows freer investment, goods, and services that will enhance the economic relation between both countries.

Figure 3.1 ECA Framework



Source: Indonesia-Taiwan Economic Cooperation Arrangement: Is It Feasible? (2014)

Based on figure 3.1, Indonesia-Taiwan ECA has four goals that are expected to give benefits for both sides. First, it should be developed under certain objectives that will provide proportional benefits for both parties (Elisabeth & Tu, 2014). Indonesia or Taiwan, both have their own capability and needs, especially in the economic cooperation. Although both countries want to achieve certain

objectives that might be different, ECA should have the scenario to support both sides.

Second, ECA should be designed to achieve certain objectives to strengthen and enhance the economy, trade, investment, and human resources development (Elisabeth & Tu, 2014). For example, one of the objectives of Indonesia is increasing the export competitiveness and materializing it. Indonesia could enhance its economic as well as other objectives of Indonesia. It should be achieved so that both countries could get the benefit from ECA.

Third, ECA should be intended for bridging development gap and asymmetrical condition between Indonesia and Taiwan. The asymmetric condition could be seen in the aspects of cooperation, such as agriculture, human resources development, SMEs, and manufacturing (Elisabeth & Tu, 2014). By reducing or giving the solution to the asymmetric condition, both countries have the same opportunities to benefit from the relation. Eliminating the asymmetric situation also can enhance the economic capability of the country.

Fourth, ECA should provide a room to explore new fields and develop appropriate measures for a closer economic cooperation. By exploring new fields, Indonesia could get more benefits from the cooperation. It is important in enhancing each economy domestically. Some sectors inside the country will be more developed and improved. By this benefit, the economic cooperation between Indonesia and Taiwan could be closer as the economic cooperation supports the economic development of both sides.

A.2. Taiwan's ECA with Other Countries

Taiwan has been trying to enhance economic relation and reduce its dependency on China. The country is planning many agreements, especially the ECA agreements between other countries or regional organizations. In Southeast Asian countries, there are Singapore and Philippines which has the ECA with Taiwan. In the regional level, there is EU which also builds the ECA with Taiwan. EU has seen that the ECA between Taiwan might be a good opportunity to be more engage with Asia, especially in the Chinese world.

Singapore succeeded the ECA in 2013 by signing of the Agreements between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu on Economic Partnership (ASTEP) (Kabinawa, 2015). Singapore-Taiwan ECA is started by the separate feasibility study. The feasibility study of Taiwan-ECA Singapore resulted in the establishment of ASTEP. The name of ASTEP has been patented by WTO in order to limit the possible protest.

Indonesia-Taiwan ECA and Singapore-Taiwan ECA have a different approach, which can be seen by the conducted research. In the Singapore-Taiwan ECA, they have the separate feasibility study that involves Taipei Representative Office (TRO) in Singapore, and Singapore Trade Office (STO) in Taipei (Kabinawa, 2015). As the study has run effectively, by the process of negotiation that had been conducted by TRO and STO, finally in 2013, both representatives of the countries signed the ECA agreement.

Another Southeast Asian country which has the ECA with Taiwan is the Philippines. The ECA with the Philippines began with the same approach like

Indonesia and Singapore, in which the Philippines also held the feasibility study. The feasibility study that is conducted separately finished in March 2013 (Charles-Magkilat, 2013). However, a further discussion about ECA has not been conducted yet, as both countries are still focusing on the existing bilateral trade (Charles-Mangkilat, 2016).

Taiwan also has the ECA with EU; although EU is actually not the highest priority towards the regional trade agreement (RTA) of Taiwan (Jen, 2012). It does not give much attention either to Taiwanese as post-ECFA has become the main focus. Moreover, the former president of Taiwan, Ma Ying-jeou stated that the Trans-Pacific Partnership (TPP) would be more important (Jen, 2012). However, in the perspective of EU, ECA might open a bigger opportunity to enter the Chinese market more easily.

B. Indonesia-Taiwan Progress of ECA

Before conducting the ECA, the joint studies have been held to analyze the potential aspects of the relation. There are two joint studies that were conducted together by The Research Center for Politics, Indonesian Institute of Science (P2P LIPI) and Chung-Hua Institution for Economic Research (CIER). The first study started in 2010, which analyzed the recent economic relation between both countries and the development of it since the early relation. While the second study research was about the feasibility study of the ECA.

B.1. The First Joint Study Overview

In 2010-2011, CIER with P2P LIPI collaborated together to research about the potential relation between Taiwan and Indonesia (CIER, 2012). The first research which entitled 'The Dynamics and Current Status of Indonesia-Taiwan Relation' was conducted in one year and was concluded in the last 2011. It reviewed the economic relation of Indonesia and Taiwan focusing on 4 main sectors; agriculture, automotive and electronics, small and medium enterprises (SMEs), and human resource development (Elisabeth & Tu, 2014).

In this first joint study, P2P LIPI and CIER encouraged Indonesia and Taiwan to do the joint feasibility study of ECA (MOFA, 2011). It is because one of the objectives of this research is to investigate whether ECA is necessary to increase the economic relation. By the research then it can be said that ECA could maximize the potentials in the economic cooperation (CIER, 2012).

In this first joint study, the researchers reviewed the sectors of Indonesia-Taiwan relation, and to what extent the economic and trade relation between both countries work. It also analyzed whether those sectors could be developed by the relation conducted during the cooperation. Indonesia and Taiwan have the complementary economic nature that will be beneficial for both sides when the economic cooperation is conducted (CIER, 2012). Indonesia is potential with its huge market and Taiwan has a good technology industry, so this relation will be working well (MOFA ROC, 2011).

In addition, the joint study also analyzed the potential aspects of the relation (Krisman & Sinaga, 2012). There are automotive industry; agricultural

aspects; and human resources that can be developed (Krisman & Sinaga, 2012). As Indonesia is the fourth populous country in the world, it has huge human resources that can support the industries. It will be also supporting Taiwan to invest in Indonesia.

This joint study is also basically promoting and strengthening Indonesia-Taiwan economic relation (MOFA ROC, 2011). By analyzing how far the relation between both sides, it will issue which aspect succeeded and needed to be developed. After the analysis then it comes which potential aspects that need to be developed together in the ECA. As the purpose is to promote and strengthen Indonesia-Taiwan relation, both countries should understand each of the potentials so the relation could be maximized and more beneficial.

This study was concluded in the joint workshop that was held on December 1, 2011, in Jakarta (MOFA ROC, 2011). It successfully analyzed and reviewed the current relation of Indonesia and Taiwan. There were governments and officials, scholars, and industrial groups who are expected to consider the policy option of ECA who attended to the joint workshop (P2P LIPI, 2011). The arrival of the mentioned participants will support Indonesia-Taiwan relation in the future.

The joint workshop concluded that the joint study about ‘The Dynamics and Current Status of Indonesia-Taiwan Relation’ succeeded. Therefore, the second joint study has recommended to continue the study by conducting the second phase of the joint feasibility study of ECA (MOFA ROC, 2011). It is crucial to understand the potentials of ECA in this economic cooperation before

signing the agreement. As the head of TETO, Andrew Hsia believed that the ECA could be more beneficial for both sides in this economic relation (P2P LIPI, 2011).

B.2. The Second Joint Study Overview

The success of the first joint study of both countries could lead to the second study. As told previously, the second joint study is to analyze the feasibility of Indonesia-Taiwan ECA. The joint feasibility study was officially started on May 9, 2012, in Taipei (CIER, 2012). By the witness of Mr. Andrew Hsia as the head of TETO and Prof. Dr. Syamsuddin Haris as the head of LIPI, the signing ceremony of the second joint feasibility study of ECA was held (CIER, 2012).

The researchers conducted the study in both countries, Indonesia and Taiwan to analyze the feasibility study of ECA. It is important because it will impact to the research as the researchers can have a direct review that leads to more accurate data. The result will be considered as the policy for further economic relation.

It is stated by Dr. Adriana Elisabeth as the coordinator of team study of Taiwan P2P LIPI and Andrew Hsia as the head of TETO, that the ECA is based on the WTO principles. It is because both countries are the members of WTO, and both should follow the requirements of WTO. action that the bilateral and multilateral cooperations conducted by the members should use the principles of WTO.

There is a point of the joint feasibility study, which is the overview of ECA in the perspective of Indonesia (Elisabeth & Tu, 2014). As the relation of Indonesia and Taiwan is only relying on the economy, it is indeed becoming a challenge if the ECA will be conducted. However, in the perspective of Indonesia which is the part of WTO, ECA will give more benefits for Indonesia and Taiwan. It is because ECA will follow the principles of WTO (Elisabeth & Tu, 2014).

The flow of investment and trade in Indonesia were being reviewed in this study. It has been planned by the government of Indonesia to attract other countries to invest in Indonesia, especially Taiwan. The environment also has been designed to support foreign direct investment in Indonesia, such as strengthening the institution, the Indonesia Investment Coordinating Board (BKPM), the existence of Corruption Eradication Commission (KPK), laws on intellectual property rights (IPR), and the Law No. 32/2009 to support the investment environment in Indonesia (Elisabeth & Tu, 2014).

Then, analyzing the potential impacts of ECA is also important in order to consider further ECA policies. Basically, the impact of the ECA for Indonesia and Taiwan is the relation will be widened (Elisabeth & Tu, 2014). There will be freer movements of goods and services, the sectors of the relation also will be widened. It will be more beneficial for both countries in conducting this asymmetrical relation.

The second joint feasibility study also investigated about the potential regulation of the relation. In this research, it was outlined that customs procedures and trade facilitations, the standards and procedures, sanitary and phytosanitary

(SPS) measures, education, capacity building, and migrant workers are the part of the potential regulatory (Elisabeth & Tu, 2014). Those potential regulations could be the key or as the basis to determine the other ECA policies.

When analyzing Taiwan and Indonesia relation, it is quite interesting because, without the government intervention, the relation could be conducted well. Nevertheless, the ECA could be problematic because it has to be conducted by the government to government if it is seen from the government's side, as it has to be dealing with WTO (Elisabeth & Tu, 2014). However, it can't be done as Indonesia is obstructed by One China Policy.

The researchers also found the weaknesses of the domestic condition in Indonesia that needs to be tackled. The weakness of domestic political and economic condition, insufficiency of the labors, and inadequacy of the infrastructure in a few areas in Indonesia could become the obstacles of conducting the ECA (Elisabeth & Tu, 2014). However, still, the potential aspect of Indonesia is considered.

In the second phase of the feasibility study, it focused more on the feasibility of ECA towards the relation between Indonesia and Taiwan. It encouraged both parties to have the policy option for ECA by a building block approach (CIER, 2012). It is because there were some challenges and difficulties in realizing the ECA that was found by the research (CIER, 2012). However, the building block approaches are expected to help the current circumstances.

The joint feasibility study of ECA has been successfully conducted on December 20, 2012 (CIER, 2012). The study showed the potentials, challenges,

and difficulties mentioned previously. The successfully of this second joint study is expected to be able to attract the government or the representatives of both sides to continue the ECA to the concrete agreement.

B.3. The Continuation of Indonesia-Taiwan ECA

After conducting the joint feasibility study of ECA December 2012, there was no significant progress of the agreement. It could be said that the ECA between Taiwan and Indonesia has been postponed (Kabinawa, 2015). It is because there was no further act after the conducted feasibility study. There is still no realization of the concrete agreement of ECA.

The research conducted by Prof. Kabinawa stated that the Indonesia-Taiwan ECA is postponed. It could show that progress of Indonesia-Taiwan ECA is slow (Kabinawa, 2015). There has been no further negotiation of the ECA up until this time. However, in fact, the joint feasibility of ECA has been successfully analyzing the potentials of the ECA if it is conducted.

However, the failure of the ECA is not due to One China Policy that is applied by Indonesia (Kabinawa, 2015). The ongoing economic relation of Indonesia and Taiwan is the proof that there is no significant problem of the non-diplomatic relation. Indonesia and Taiwan still maintain a good relation until now. Even though the relation is only conducted in the economic aspects, both countries could explore and maximize it and it results to be beneficial for both sides.

Actually, the proposal has been sent to Indonesia's government but it has no response (Kabinawa, 2015). As a result, the ECA could not be conducted further. There is also no distinct response on how the government still postpones the ECA. The possible reason might be the government who is already satisfied to the relation between Indonesia and Taiwan. The tension of the mainland China also could make Indonesian government become vigilant and limit the movement with Taiwan.

One of the reasons of postponing ECA is non-involvement of the reciprocal institution (Kabinawa, 2015). The joint study can be conducted by LIPI as it is the governmental research institution. The reciprocal institution could play the important role regarding the Indonesia-Taiwan ECA as it is considered as the bilateral relation that needs support from the institution which sustains Indonesia-Taiwan relation.

The absence of government or the representative institution also could lead to the postponement of ECA (Kabinawa, 2015). It is because the representative institutions play the important role towards the relation. Even though Indonesia sticks to One China Policy that does not allow Taiwan to interact with the government, the discussion to the government is still needed in order to realize the concrete of ECA.

The research of joint feasibility study of ECA has been conducted by CIER and LIPI, which is actually not the representative institution of conducting the bilateral relation. There is no direct involvement of TETO or IETO, while it is important to let them involve to proceed the further negotiation. The

representative of both countries should at least join the research together with LIPI and CIER (Kabinawa, 2015).

The postponement of the ECA between Indonesia and Taiwan can be seen clearly because there has been no government's role that involves since the beginning of conducting the ECA. While it is really possible to continue the ECA since there are potential aspects that can be developed by ECA. The ECA also will be beneficial for both countries; however, if there is no negotiation with the government or representatives of both countries, the decision making could not be taken place (Kabinawa, 2015).