

## **CHAPTER IV**

### **ECONOMIC COOPERATION ARRANGEMENT (ECA) WILL GIVE MORE BENEFIT FOR INDONESIA**

This chapter will explain the possible impact of the ECA that also will show the benefits that Indonesia will get from this arrangement. In the joint feasibility study of ECA, the researchers have analyzed the potential impacts of ECA. There are also the simulations to show to what extent ECA will work or be successful in enhancing this economic cooperation.

It has been explained in the previous chapter that ECA would create the mutual benefits between both countries. The joint studies that have been conducted also show that ECA will enhance the economic trade, investment, and human resources development. It also could be considered that Indonesia will gain more benefit compared to the current cooperation.

As the relation between Indonesia and Taiwan is limited by the economy, Indonesia and Taiwan could freely arrange the cooperation to maximize the benefits. ECA could give the freer movement of the economic cooperation. There will be the liberalization of trade which will give more benefits for both countries' economy, especially for Indonesia in which the market is wider than Taiwan. It means Indonesia could have the opportunity to develop its market and will boost the economic growth.

## **A. The Potential Impact of ECA for Indonesia**

The joint feasibility study of ECA has shown the possible impacts in the economy. The researchers have analyzed the simulation that could be conducted in the relation. There are two kinds of the simulation; goods liberalization, and wider liberation (beyond tariffs in goods). Both simulations basically will show more benefits that will be gained after ECA is applied.

### **A.1. Goods Liberalization Simulation Analysis**

In this limited liberalization, the researchers use the Global Trade Analysis Project (GTAP) and Single Market Partial Equilibrium Simulation Tool (SMART) methods. This simulation focused on macroeconomic and sectoral impacts of both economies. It also has three steps; select the potential sectors of both countries, stimulate the bilateral trade relation, and explore the other sectors that also support the liberalization of the economic (Elisabeth & Tu, 2014).

There are some impacts in macro economy in this simulation for Indonesia. The welfare of Indonesia will be improved, and the economic growth will be boosted (Elisabeth & Tu, 2014). It is because Indonesia as a developing country is always trying to increase the domestic production. The increasing of production is also caused by the export demand.

It can be simplified that in this goods liberalization simulation, it will impact to the macro economy and sectoral in Indonesia (Elisabeth & Tu, 2014). Indonesia has its potential macro economy and wider economy if it is compared to Taiwan. It will give advantages to Indonesia, such as increasing the economic

growth. The economic growth that can be developed leads to the increasing of GDP that also will impact to the societies' welfare.

Table 4.1 Macroeconomic Impact for Indonesia of bilateral free trade Indonesia-Taiwan

Macro Indicators/Scenario	Scenario 1		Scenario 2	
	Indonesia	Taiwan	Indonesia	Taiwan
Welfare (US \$ Million)	25.188	116.705	28	116.14
Economic growth (% change in GDP quantity index)	0.006	0.003	0.006	0.003
Inflation (% change in GDP price index)	0.047	0.084	0.051	0.083
Employment ( 3 largest selected sectors)				
<i>Demand of unskilled labor (% change)</i>	Wearing apparel (1.55)	Textiles (4.54)	Wearing apparel (1.5)	Textiles (4.54)
	Textiles (0.632)	Leather products (2.369)	Textiles (0.62)	Leather products (2.37)
	Motor veh. and parts (0.49)	Wearing apparel (1.29)	Motor veh. and parts (0.49)	Wearing apparel (1.29)
<i>Demand of skilled labor (% change)</i>	Wearing apparel (1.523)	Textiles (4.57)	Wearing apparel (1.51)	Textiles (4.57)
	Textiles (0.639)	Leather products (2.04)	Textiles (0.63)	Leather products (2.41)
	Motor veh. and parts (0.501)	Wearing apparel (1.327)	Motor veh. and parts (0.49)	Wearing apparel (1.33)
Terms of trade (% change)	0.007	0.046	0.010	0.046

Source: GTAP Simulation, processed.

Source: Indonesia-Taiwan Economic Cooperation Arrangement: Is It Feasible? (taken from: CIER) (2012)

Based on Figure 4.1, there are two scenarios that will be used in the ECA for both economies. The first scenario includes the 26 goods based on GTAP. The 26 goods include ready to wear apparel, mining, fuel, transport and economic equipment, forestry, fishing, animal products, and manufacturing (Elisabeth & Tu, 2014). Additionally, in the second scenario will include the whole liberalization,

the 26 goods based on GTAP and other selected sectors that are not included in scenario 1.

Actually, there is not much difference between both scenarios. However, to maximize the trade, the second scenario is preferable. The scenario 2 also covers more of the goods liberalization. It is expected to increase the growth of the economy in Indonesia as well.

There are some sectors that will be beneficial for Indonesia's economy; such as textiles and ready to wear apparel, motor vehicle and parts, electronic equipment, food products, fishing, and metal (Elisabeth & Tu, 2014). It is because Indonesia is so potential in those sectors as the labor and the field are also supporting those sectors. However, the other sectors could have a low growth or bad impact if this simulation is applied.

As the form of supporting the industry of those sectors that will be beneficial for Indonesia, the demands of the labor will also be increased (Elisabeth & Tu, 2014). This simulation will directly help the decreasing rate of unemployment. It is because labor is crucial and one of the factors that could realize the existence of industry. It also could boost the economic growth of Indonesia that will reach the increasing of trade by 0.007-0.01% (Elisabeth & Tu, 2014).

Indonesian export to Taiwan will also be increased. The increasing will happen in all the sectors from GTAP based. Ready to wear apparel and textile are some of the highest export sectors to Taiwan (Elisabeth & Tu, 2014). Indirectly,

those two sectors are important in the trade of both countries, as there will be always a high demand for it.

## **A.2. Wider Liberalization (Beyond Tariffs in Goods) Simulation Analysis**

In this simulation, there are three scenarios that show more of the liberalization in the trade. There is not only the goods liberalization but also other aspects are included in this second simulation; however, the textile is still becoming the highest impact among other sectors (Elisabeth & Tu, 2014). There will be tariffs reduction on both sides as it could boost the GDP of each of both countries. As it is believed that the increase in GDP will also increase societies' welfare.

The first scenario is market liberalization benefit. It means that there will be the removal of tariffs on the trade. As well as total removing other trade barriers. However, this doesn't give the benefit of the investment, only the trade that will be conducted better.

The second scenario is the liberalization of market and trade facilitation (Elisabeth & Tu, 2014). The scenario two has added the trading facility which is to make the customs clearance of goods improved to 1% efficiency. It could be conducted if the FTA is signed by both countries.

The third scenario adds the benefit of the investment after the signing of FTA (Elisabeth & Tu, 2014). It is because FTA could give impact to the investment. In the case of Taiwan's investment to Indonesia, if the FTA is signed,

indirectly, the GDP of Taiwan will increase. By the increase of the GDP, Taiwan could contribute more to the investment flow in Indonesia.

Table 4.2 Scenarios of ECA

	Market liberalization		Trade facilitation	Investment benefits*
	Tariff reduction	Liberalizing services trade		
Scenario 1	Removal of bilateral trade barriers (100%)	Liberalizing services trade barriers (2/3)	-	-
Scenario 2	Removal of bilateral trade barriers (100%)	Liberalizing services trade barriers (2/3)	Improving efficiency of customs clearance of goods trade (1%)	-
Scenario 3	Removal of bilateral trade barriers (100%)	Liberalizing services trade barriers (2/3)	Improving efficiency of customs clearance of goods trade (1%)	Taiwan's investment increase (0.08%)* Indonesia's investment increase (0.0085%)

Source: CIER (2012).

Source: Indonesia-Taiwan Economic Cooperation Arrangement: Is It Feasible? (taken from: CIER) (2012)

As seen in table 4.2, the latter scenario is the freer allowance of the trade. It also could indicate that the GDP will be more increased by the latter scenarios. As in the scenario 3, it is estimated that Indonesia's GDP will be increased by US\$480 million or around 0.11% (Elisabeth & Tu, 2014).

There is an increasing number of export in several sectors in this simulation, especially in the agricultural and processed foods. Indonesia's agriculture export to Taiwan is pretty high. Other significant exported products by Indonesia are chemical, rubber, and plastic products; motor vehicle and parts; electronic equipment; and machinery (Elisabeth & Tu, 2014). By the signing of the FTA between Indonesia and Taiwan, the export of agricultural goods to Taiwan has raised (Elisabeth & Tu, 2014).

### **A.3. ECA Impacts on Taiwan Investment in Indonesia**

In the early of Jokowi's presidency, he states that there are many things in this country that should be transformed. One of them is the transformation of the economy, such as the shifting of consumptions to productions, as well as the reformation of bureaucracy and other aspects (Tay, Chen, Tan, Kiruppalini, & Pek, 2016). It is indeed not an easy task for the governments and the staffs in the new presidency. It needs a plenty of time to finish one by one.

In the current situation, knowing that Indonesia through Jokowi administration has transformed its economic strategy, Taiwan has promised to increase its investment in Indonesia (Sundaryani & Wirayani, 2016). Taiwan believes that the new economic transformation by Indonesia will make Taiwanese investors increase their investment in Indonesia. The sectors of investment that are already discussed by Indonesian and Taiwanese officials are the electronics, manufacturing, renewable energy and fisheries sectors (Sundaryani & Wirayani, 2016).

Indonesian officials call for Taiwan investment in the shipping industry, as Taiwan's shipbuilding and container management are good (The Medi Telegraph, 2016). Taiwan has the Kaohsiung's shipping industry that produces vessels and boats that could be invested in Indonesia. The investment in the shipping industry also could help Indonesia to develop its port. It will be the stepping forward to the realization of Indonesia as the global maritime axis.

ECA is potential for Indonesia to increase Taiwan's investment to Indonesia. It is because, by ECA, the investment will be maximized. As

mentioned in the previous page that if Indonesia signs the FTA with Taiwan, Taiwan may increase its investment in Indonesia, as the signing of the FTA will impact to the increasing of Taiwan's GDP. So, it also opens the opportunities to invest the bigger amount to other countries, especially Indonesia.

#### **A.4. Further Explanation of The Potential Impacts for Indonesia**

Indonesia is a developing country, which needs many economic plans to enhance the economic condition of the country. In the current relation with Taiwan, it remains good. Taiwan investment in Indonesia could be counted. However, as the relation is limited, there would be no cooperation besides the economic cooperation. So, to support the development of the country, ECA will be one of the supporting programs from this limited relation.

It could be said that Taiwan is more developed than Indonesia; although there are still many things which should be enhanced, especially in the economy. Moreover, during this time, Taiwan has a high dependence on China. However, Taiwan has declared itself as a country, Taiwan should be more active to make relations with other countries.

Actually, Indonesia and Taiwan have the economic complementary nature, which could complement each other's economy. It can be said that Taiwan's industry is promising, especially for Indonesia. Indonesia has labors that will support the industry. It will develop the country's economy as well. Moreover, the clearer program that has provided by ECA will maximize the benefit for Indonesia.



## **B. ECA Could Help the Relations between Indonesia and Taiwan be More Institutionalized**

ECA has provided freer and wider relations. Indonesia and Taiwan could maximize the relations with the potentials that are found from the joint study. Both countries could also enjoy the benefits more of what has been gained in the current bilateral relation (Elisabeth & Tu, 2014).

Besides the potential aspect uncovered, the joining of Indonesia and Taiwan as the member of WTO is making the ECA easier and more convenient for both. It is because both countries could use the existing WTO principles as the basis of the ECA. As the membership of WTO, both countries could also benefit from the wider economic trade in international area (Elisabeth & Tu, 2014).

ECA could make Indonesia and Taiwan relations become more institutionalized because ECA has a clearer framework. Additionally, ECA also could lead to the more institutional relations. It is because the existing relation only through businessman to businessman and people to people facilitated by TETO and IETO.

The more institutionalized relations also will enhance the cooperation between Indonesia and Taiwan. For example, the custom administrative which is very crucial for the international trade, especially in this bilateral relation. By ECA, customs administrative could be institutionalized (Kabinawa, 2015). So, the cooperation will improve as the customs administrative could be managed well and make the trade easier.

### **C. ECA Dilemma**

Indonesia and Taiwan have been projecting the ECA since 2010 by the conducting the first joint study. Followed by the second joint study in 2012, it shows that ECA could help both countries have closer relations by maximizing the mutual benefit. The mutual benefit can be gained by the more institutionalized scheme of ECA. So, Indonesia and Taiwan could have the relation that is more institutionalized and clearer; although both countries couldn't conduct the diplomatic relations.

ECA promises a more beneficial and institutional relation between Indonesia and Taiwan. The study of ECA has analyzed the potentials sectors that will be enhanced if ECA will be conducted in the future. It will help boost the economic growth of both countries, especially Indonesia as the developing country.

ECA also could help increase the investment in Indonesia by attracting Taiwanese investors to invest in Indonesia as ECA provides the more institutionalized scheme that will guarantee the rise of the investment. After the FTA signed by Indonesia, it will impact to the increasing of Taiwan's GDP. It leads to the increasing amount of Taiwan's investment in Indonesia.

However, ECA could be dilemmatic because without ECA Taiwan also puts its interest in investing in Indonesia. It means it has already helped to achieve the national interests of Indonesia in Jokowi's administration. Moreover, Taiwan has promised to increase the investment in Indonesia.

Without ECA, the relations between Indonesia and Taiwan also could be increased. Probably, it is one of the reasons that ECA didn't continue to the signing process as Singapore-Taiwan has conducted. However, the joint study that has conducted by LIPI and CIER has proved that ECA will make the bilateral relations become clearer because ECA has the clear framework

In the context of investment, the current investment in Taiwan has already benefited Indonesia. Even though Taiwan is not included in the ten largest investments in Indonesia anymore, the amount of the investment doesn't decrease. So, ECA doesn't really help to achieve Indonesia's interest; attract more investors, because Taiwanese investors in Indonesia have been already interested in investing in Indonesia. However, probably the amount of investment will be increased if ECA is applied, as ECA guarantees the investors by the institutional framework.

Only with the ECA, the investment could be guaranteed by the arranged framework. So, the investors won't be hesitant to invest in Indonesia. It also will guarantee more the economic development of Indonesia. More to the point, the bilateral relation also could run smoothly as there is a clear scheme of the ECA.