



The AEC and Taiwan-Indonesia Economic Partnership: A Taiwan Business perspective





Outlines

**I. The AEC and Taiwan's business
Response**

**II. Shaping A New Indonesia-Taiwan
Economic Partnership**

III. The Way Forward

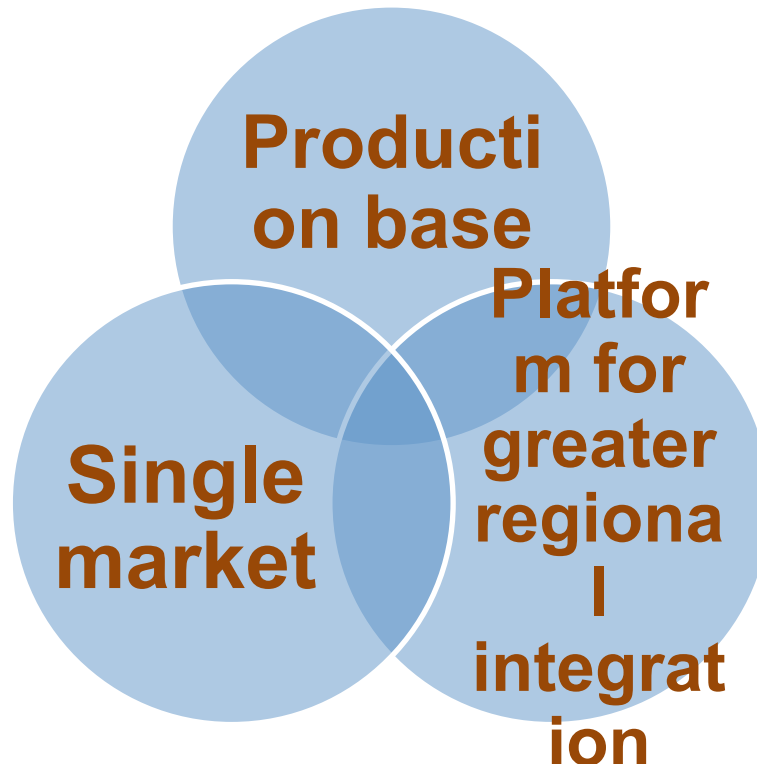
One Vision, One Identity, One Community





2015 ASEAN Economic Community

1. Towards a single market and production base
2. Towards a highly competitive region
3. Towards a region of equitable economic development
4. Towards full integration into the global economy





Strong Business Interests in AEC

- As investment climate in China is becoming less favorable, ASEAN will be both an Asia Factory and an Asia Market.
- A growing number of Taiwan businesses (manufacturing and services sectors) have adopted or consider an “*ASEAN strategy*”.
- According to informal business survey, most Taiwan companies consider to invest, increase presence or explore more cooperation in ASEAN countries; high percentage of companies expect business to increase in the future when the AEC is realized; urge the government to adopt a more aggressive approach in promoting economic relations with ASEAN.



Government Level - Strategy -1

- ❑ “*Action Plans for Enhancing Economic Relations with Southeast Asia*”, first adopted in 1994 known as the “Go South” policy hailed the 20th anniversary in 2014.
- ❑ The 7th *Multi-year Action Plans* adopted in 2014 expands to broader scope and more areas for promoting cooperation – agriculture, resource, human capital, education, services, investment, supply chains cooperation.
- ❑ Priority targets for developing Economic Cooperation Agreements (ECA) and other functional/sectoral agreements.
- ❑ Assistance programs for trading with/ investing in ASEAN.
- ❑ Emerging partnership in ASEAN markets – collaboration with Japan in ASEAN countries, e.g. **Motor vehicle industrial supply chains in Indonesia.**



Government Level - Strategy -2

- ❑ Cross-Strait Relations: Taiwan-China Economic Cooperation Framework Agreement (ECFA) signed in 2010, followed by BIA and FTA of services. FTA of goods and dispute settlement agreement now being negotiated.
- ❑ At regional level, President Ma announced the government's commitments to participating in the TPP and the RCEP when the two agreements are concluded and open for new members in 2016(?).
- ❑ Other actions to promote economic relations with ASEAN:
 - ✓ Improve relations with Cambodia, Laos, Myanmar (CLM)
 - ✓ Enhance cooperation on SME, ICT, supply chain collaboration, services, etc.



Industry Level Action

- Increasing challenges in exporting to ASEAN countries due to competition from other countries, tariff and non-tariff barriers compared with competitors, i.e. China, Korea, Japan.
- After the global financial crisis in 2008/2009 and particularly after 2011 when ASEAN decided to launch RCEP negotiations, Taiwanese investments in ASEAN countries registered strong growth – *Taiwanese businesses returning to Southeast Asia.*
- Adopt a firm-level *ASEAN Strategy* - from export-oriented approach to more inward looking approach; rebalancing between Chinese market and ASEAN (+South Asia) markets; ASEAN's FTA networks and GSP schemes.



Outlines

**I. The AEC and Taiwan's business
Response**

**II. Shaping An Enhanced Indonesia-
Taiwan Economic Partnership**

III. The Way Forward



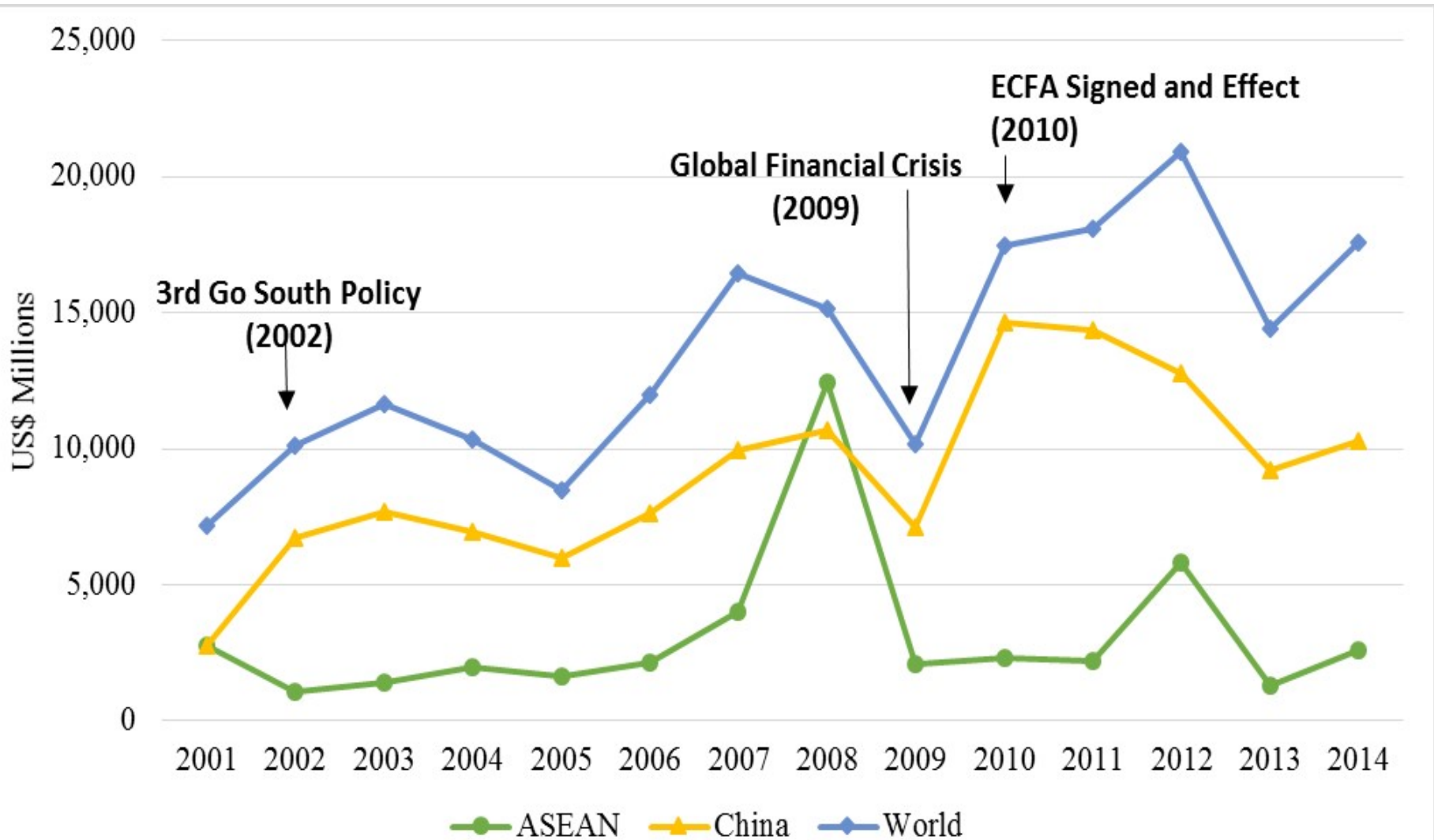
2014 TEEMA Survey on TW FDI in China

- 2014 Taiwan Electrical and Electronic Manufacturers' Association (TEEMA) Survey on Chinese Investment Climate

	2011	2012	2013	2014
Commercial/ investment disputes		119.91%	127.63%	140.63%
Satisfactory settlement	69.38%	62.93%	58.48%	57.16%
Profitability (-10%~50%)	5.11%	16.54%	25.02%	24.90%
Expectation for next 3 years		35.10%	29.09%	23.60%
Plan for expansion in next 5 years	53.02% (2010)			40.28%
Return Taiwan for listing	254%	2.92%	4.08%	6.29%



TW's outward FDI flows (2001~2014)





New Trends of TW Outward FDI

- FDI in China: average scale of projects continues to grow, from USD 3.47 million in 2004 to USD 25.2 million in 2014; but total FDI volume continues to decline since 2010.
- FDI in ASEAN countries: “*Taiwanese businesses return to Southeast Asia*”, concentrating in populous countries and emerging markets - **Indonesia** + the Philippines; the CLMV countries.
- Reasons for going to ASEAN: changing investment environment in China, 2015 AEC, increasing domestic demands, positive policy direction (Vietnam joining the TPP, **Indonesia** more supportive of manufacturing industry, etc).
- Manufacturing supportive services; regional manufacturing / operational hub; more indirect investment, M&A and franchising activities, etc.



TW-IR Economic Partnership - 1

- Despite constant growth in bilateral trade, TW-Indonesia economic potentials are underdeveloped.
- Trade structure highly complementary and concentrated.
- Since 2011, investment began to grow significantly; increasing interests in manufacturing/services to respond to “the rise of middle class” and the 2015 AEC and negotiations of the RCEP.
- Indonesia competing with Vietnam and the Philippines for TW FDI.
- As of end-2014, FDI stock reached USD 16.9 billion. TW ranks as Indonesia’s 9th largest source of FDI stock; IR ranks as the 2nd destination next to Vietnam.



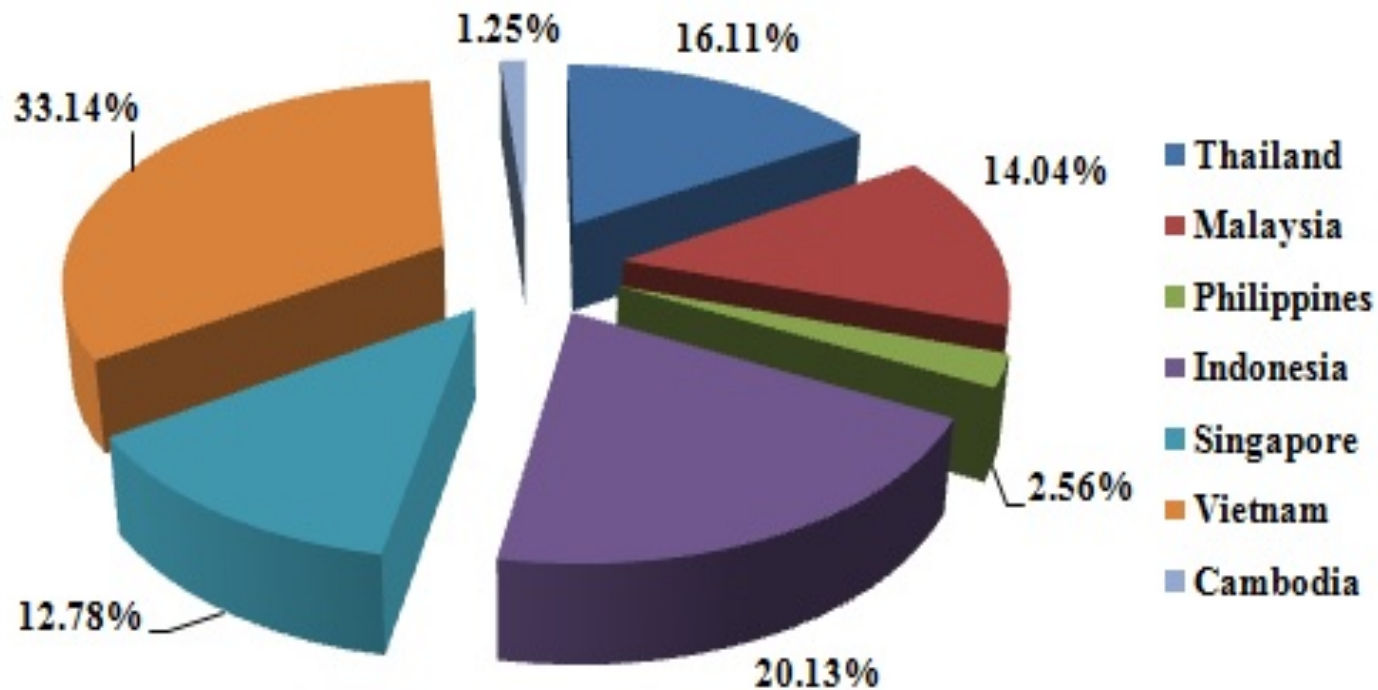
TW-IR Economic Partnership - 2

- Some benchmark FDI projects: e-United Steel, Maxxis Tires, Kenda Tires, Foxconn, etc.
- More M&A activities in services sector. e.g. Cathay Financial Holding acquired 40% stock of PT Bank Mayapada Internasional.
- Improved investor sentiment after the Presidential Election and incentives of the Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI) program.
- Under the trend of returning to ASEAN, TW and IR should form sector-specific production networks; exploring international market in joint efforts.
- Opportunities for cooperation: marine resource based industry – ship building, infrastructure, fishing, food and nutrition (bottled water), etc; potential cooperation – petro chemical, electronics...



Taiwan's FDI Stock in ASEAN

TW FDI Stock in ASEAN Countries

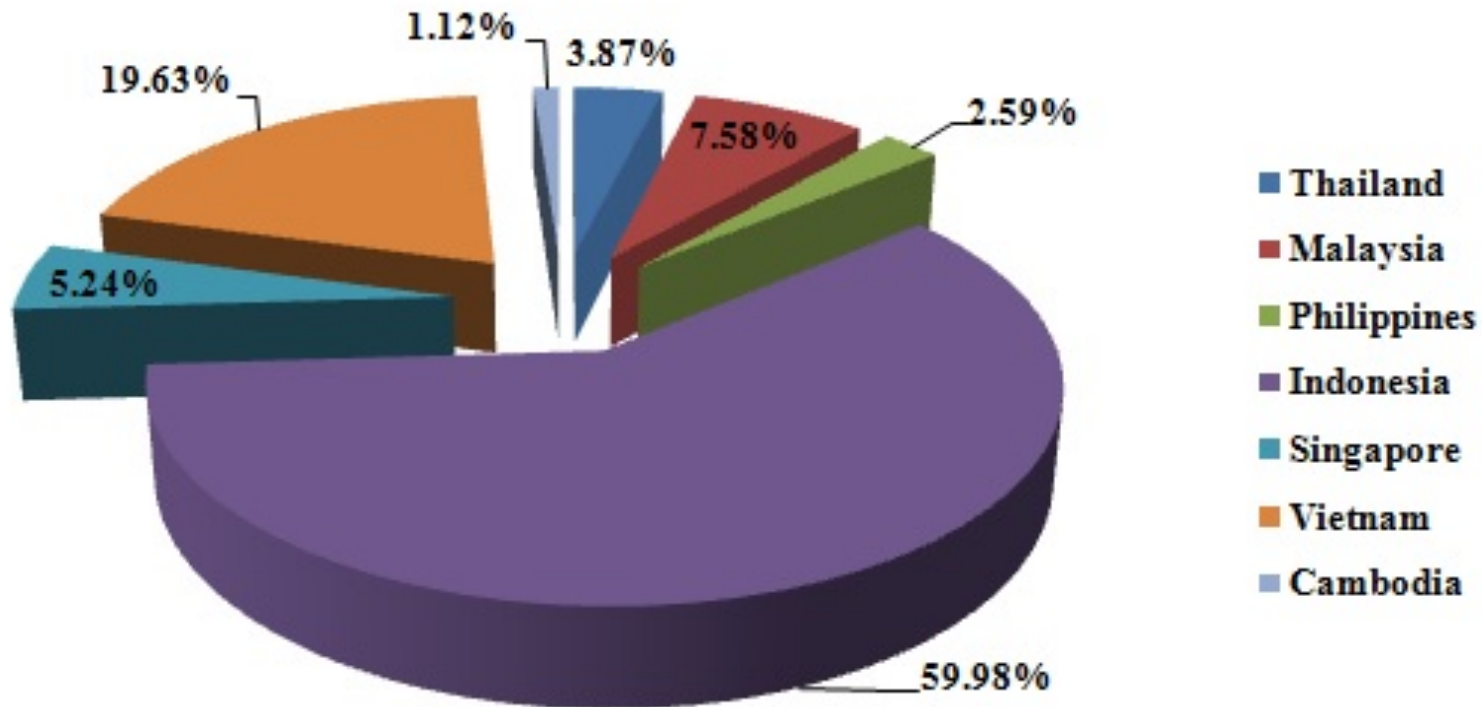


Thailand	Malaysia	Philippines	Indonesia	Singapore	Vietnam	Cambodia
16.11%	14.04%	2.56%	20.13%	12.78%	33.14%	1.25%
13553.93	11811.06	2152.94	16930.81	10751.14	27874.64	1049.61

US\$Million

2014 Taiwan' FDI inflows in ASEAN

TW FDI Flow in ASEAN Countries (2014)



Thailand	Malaysia	Philippines	Indonesia	Singapore	Vietnam	Cambodia	
3.87%	7.58%	2.59%	59.98%	5.24%	19.63%	1.12%	
101.10	197.74	67.49	1565.42	136.77	512.42	29.12	US\$Million



Outlines

- I. The AEC and Taiwan's business Response**
- II. Shaping An Enhanced Indonesia-Taiwan Economic Partnership**
- III. The Way Forward**



IR: a Potential Hub for Taiwan

❑ *ASEAN Factory* and *ASEAN Market*

- Vietnam: regional manufacturing hub for textile, footwear, electronics parts
- **Indonesia: automotive and parts, agri-based and resource-based industry, Halal industry, others (petro-chemical, steel, etc?)**
- Philippines: electronics, services (banking, insurance, medical service)
- Singapore: financial, trading center and R&D Center
- Malaysia: gateway to global Islamic markets
- Thailand: regional operational (manufacturing hub for electronics, food processing.
- CLM countries: labour intensive industry



Recommendations

- ❑ For Taiwan and Indonesian Governments:
 - ✓ To review bilateral relations and explore new growth models.
 - ✓ To develop bilateral FTA/ECA; review BIA.
 - ✓ To promote industrial cooperation and identify specific sectors to promote establishment of supply chains in IR.
 - ✓ To Initiate industrial cooperation, i.e. HR and SME cooperation.
- ❑ For Industry:
 - ✓ To establish industry-to-industry cooperation and Taiwan-Indonesia Business Coalition and CEO Summit
 - ✓ To help companies to develop *an ASEAN (ASEAN+) strategy* to exploring AEC markets.
 - ✓ To promote cultural and people-to-people exchanges

Thank you for your attention!



Kristy Hsu

TEL: 886-2-2735-6006*318

Email: kristy@cier.edu.tw



台灣東南亞國家協會研究中心

Taiwan ASEAN Studies Center