

Case Analysis II

Impacts of AEC on Indonesian Economy

EE459

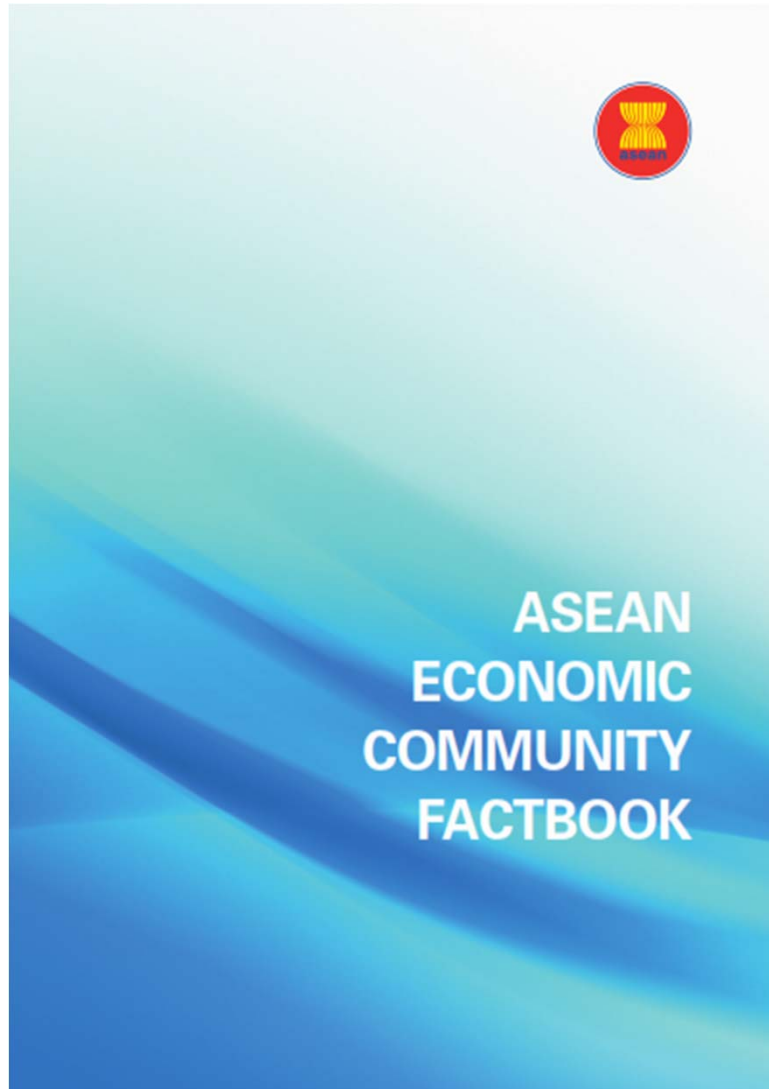
Semester 1/2014

Background of ASEAN Economic Community

Background of ASEAN Community

- In 2007, all ASEAN members agreed on the development of ASEAN Community, expecting to complete the establishment in 2015
- ASEAN Community is comprised of :
 - (1) ASEAN Political-Security Community
 - (2) ASEAN Economic Community
 - (3) ASEAN Socio-Cultural Community

Background of AEC



ASEAN Economic Community (AEC)

Blueprint : main elements are

(1) A single market and production base

(2) A highly competitive economic region

(3) A region of equitable economic development

(4) A region fully integrated into the global economy

(1) A single market and production base

1.1 Free flow of goods

1.2 Free flow of services

1.3 Free flow of investment

1.4 Free flow of skilled labor

GTAP – Data Preparation and Simulation

Using GTAPAgg to **create the new global trade database**.
Specifically this database is composed of :

- **6 regions** (Indonesia, ASEAN1, ASEAN2, NAFTA, EU, ROW)
- **10 groups of commodities**

Then, run these 3 simulations:

- (1) Imposing zero import tax for all commodities traded between Indonesia and ASEAN1
- (2) Imposing zero import tax for all commodities traded between Indonesia and ASEAN2
- (3) Imposing zero import tax for all commodities traded among Indonesia , ASEAN1 and ASEAN2

For details of creating this new database and running simulations, see “**Tutorial on Using GTAP**”

Research Tasks

- (1) Use TradeMap to examine the trend of intra-ASEAN trade volumes
- (2) Use TradeMap to explore historical trends of main exported and imported products among countries in ASEAN1 and ASEAN2.

Research Tasks

(3) Apply GTAP to run 3 simulations. For each simulation, examine impacts of zero import-tax policies on the following variables :

- GDP (“qgdp” on GTAP) of Indonesia , ASEAN1 and ASEAN2
- Inflation (“pgdp” on GTAP) of Indonesia , ASEAN1 and ASEAN2
- Change on Trade Balance (“DTBAL”) of Indonesia, ASEAN1 and ASEAN2
- Also please rank sectors that will gain their export volumes according to three simulations of zero import-tax policies (ranked by % change in export as shown in qxw [* , Indonesia])
- Rank sectors that will increase their import volumes caused by three simulations of zero import-tax policies (ranked by % change in imports as indicated by qim[* , Indonesia])

Research Tasks

(4) Compare main findings obtained from TradeMap with simulation results from GTAP

- Are the historical trends indicated by TradeMap's data similar to GTAP's simulation results? If not, what are the additional factors causing these differences ?

(5) Propose policy recommendations that would lead to the highest benefit of Indonesia after joining AEC

- What should we do with the export-declining sectors and the import-rising industries?

- What should we do with the export-gaining commodities?

- Are the sizes of impacts obtained from three simulations different? What would be the factors causing these differences?

Suggestions on 2nd Assignment

(1) Written report : the format typically used by consulting companies (PowerPoint with texts and graphs/diagrams)

(2) Submit the hardcopy in the box attached to my office's door (October 14th) and also email the PowerPoint file to nattapong@econ.tu.ac.th by 6.00pm of that day.

(3) Presentation date : October 15th and 17th (time slot : 10-12 minutes)

(4) Sequence of presentation : from draw

Suggestions on 2nd Assignment

(5) Length of report : 10 – 12 pages

(6) Structure of the report

- **Part 1 – Background of ASEAN Economic Community (AEC)**
- **Part 2 – Historical trade statistics (using Trade Map)**
- **Part 3 - Analytical methodologies and results**
 - Results from GTAP simulations
- **Part 4 - Policy recommendations**
 - Other related info/data are welcome

Grading Criteria

Quality of report (60%)

- appropriate methodologies (20%)
- critical reasoning in result analysis and policy recommendation (20%)
- format of report (comprehensive graphical communication and concise text explanation) (10%)
- on-time submission (10%)

Quality of presentation (40%)

- convincing verbal explanation (30%)
- comprehensive Q&A (10%)