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Economic Diplomacy: a Comparative Study on Trade Between Visegrad Four (V4) and Indonesia

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MA Programme Euroculture
Declaration

I, Emy Sri Reskiyah hereby declare that this thesis, entitled "Economic Diplomacy: a Comparative Study on Trade Between Visegrad Four (V4) and Indonesia", submitted as partial requirement for the MA Programme Euroculture, is my own original work and expressed in my own words. Any use made within this text of works of other authors in any form (e.g. ideas, Charts, texts, tables, etc.) are properly acknowledged in the text as well as in the bibliography.

I declare that the written (printed and bound) and the electronic copy of the submitted MA thesis are identical.

I hereby also acknowledge that I was informed about the regulations pertaining to the assessment of the MA thesis Euroculture and about the general completion rules for the Master of Arts Programme Euroculture.

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Abstract

This comparative study aims to describe and explain the trade relations (structure and value) between Indonesia and the Visegrad Four (V4). This study consists of three parts. First, it provides a theoretical framework of mercantilism, realism, liberalism, and economic diplomacy. Second, it consists of comparative analysis of the current trade agreement between Indonesia and the EU including V4, trade patterns of V4 and Indonesia which encompass trade volume, trade structure, and trade partner's composition. Followed by an explanation of the barriers to trade flows between Indonesia and the V4. Finally, the last part elucidates the role of economic diplomacy in trade flows between the V4 and Indonesia. The objective of this research is to discuss the trade relations between Indonesia and the V4 and to further investigate whether the economic diplomacy and a new trade agreement between the EU and Indonesia, namely comprehensive economic partnership agreement (CEPA), can increase the value of mutual turnover between Indonesia and the V4.

This study demonstrates that the role of economic diplomacy in increasing the trade flows between Indonesia and the V4 can be done in two ways. Trade diplomacy through CEPA between Indonesia and the EU can influence the value of mutual turnover between Indonesia and the V4 by removing tariff and non-tariff barriers. Commercial diplomacy through trade promotion can affect trade flows between the two entities. Furthermore, several commodities which are seen as having the most potential for the mutual turnover between Indonesia and the V4 and having a strong competitiveness index value include textiles, coffee, coconut oil, rubber, and footwear.

Keywords: **Economic Diplomacy, Trade Diplomacy, Commercial Diplomacy, Indonesia, Visegrad Four**

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“If God helps you, none can overcome you;
and if He forsakes you who is there after Him that can help you?
and in God (alone) let believers put their trust”
Ali-Imran: 160

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List of Used Abbreviations

AFTA	Association of South East Asian Nations Free Trade Area
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
CAFTA-DR	Central American-Dominican Republic Free Trade Agreement
CCP	Common Commercial Policy
CEFTA	Central European Free Trade Area
CEPA	Comprehensive Economic Partnership Agreement
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Association
EPA	Economic Partnership Agreement
EP	European Parliament
ETP	European Trade Policy
EU	European Union
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalised Scheme of Preferences
GVC	Global Value Chain
I-EU CEPA	Indonesia-European Union Comprehensive Economic Partnership Agreement
IPE	International Political Economy
IR	International Relations
MERCOSUR	Common Market of the South
MFN	Most Favoured Nation
MS	Member States
NAFTA	North American Free Trade Agreement
NAV	Non-Ad Valorem
NTB	Non-Tariff Barrier
NTM	Non-Tariff Measure
OECD	Organisation for Economic Cooperation and Development
PCA	Partnership and Cooperation Agreement
PTA	Preferential Trade Arrangement
RCA	Revealed Comparative Advantage
RTA	Regional Trade Agreement
SNI	Indonesian National Standard
SWOT	Strength, Weakness, Opportunities, and Threat
TEI	Trade Expo Indonesia
TPA	Tariff Preferential Agreement
TPP	Trans-Pacific Partnership
V4	Visegrad Four
WTO	World Trade Organisation

Introduction

A. Problem Statement

Economic diplomacy has been present in international relations since ancient times. It can be seen in historic waves of globalisation and periods when the process accelerated and gained importance. It gained greater importance after World War II, when the Bretton Woods system was invented and implemented. However, economic issues lost their leading position in a diplomatic forum after the terrorist attacks of 11th September 2001, when they were replaced by security and political issues. Their importance was in rise again after the 2008 financial crisis, which was followed by a prolonged recession or slowdown on the world scale, from which neither Europe nor the United States economy had fully recovered. At present, with the globalisation of the world economy strengthening, economic diplomacy with the aim to improve people's welfare has become a top priority for many countries in various parts of the world.[1]

The world today is becoming more unrestricted by country borders. The exchange of information, trade, investment, and even our basic needs for daily activities cannot be limited to one geographic territory. Countries are free to choose with whom they want to interact and carry out their diplomatic relations to maintain their bargaining position and to achieve their national interests. In the past, there were limits on the distances and costs of interacting between countries. Yet currently, the distances and costs are close to zero. This is a positive effect of globalisation and trade liberalisation.

Similarly, Indonesia is leveraging this momentum through its policy responses to the dynamics of the business world and international economic diplomacy. Indonesia continues to emphasise the importance of the role of economic diplomacy as an effort in interacting with its partner countries. Besides increasing protection diplomacy, sovereignty, national diplomacy, and Indonesia's role in the region and globally, increasing economic diplomacy is one of the main priorities in the implementation of the Republic of Indonesia's foreign policy in 2019-2024. To carry out economic diplomacy, Indonesia through the Ministry of Foreign Affairs has compiled several strategic steps. One of them is to strengthen trade and investment negotiations with partner countries.[2]

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[1] Nicholas Bayne and Stephen Woolcock, eds., *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations* (Surrey, UK: Ashgate Publishing Limited, 2011), 22–25.
[2] Kementerian Luar Negeri Republik Indonesia, "Raker dengan Komisi I DPR RI, Menlu Sampaikan Prioritas Diplomasi 2019-2024," accessed November 14, 2019. https://kemlu.go.id/portal/id/read/786/berita/raker-dengan-komisi-i-dpr-ri-menlu-sampaikan-prioritas-diplomasi-2019-2024.

Europe, as the fourth largest trading partner for Indonesia, is an old continent with slow economic growth and a saturated market for Indonesian export products. In fact, according to the European Economic Forecast 2019, European economic growth has been relatively low over the past five years (around 1%) and will remain low in 2019 – 2020 with an average of around 1.1%. Moreover, the European Parliament (EP) issued a policy that indirectly limits access of the Indonesian palm oil products to enter the European Union's market (EU). This makes Western Europe inconvenient as a destination for Indonesian traditional exports.[3]

Concerning the sluggish European economy and trade barriers, along with the adoption of an economic diplomacy strategy, market diversification also become one of the main axes of Indonesia's foreign policy. Indonesia's diplomacy engine is encouraged to foster economic benefits back to the country of origin. Market diversification is applied by changing the focus of the previous export destinations from traditional markets to non-traditional markets. The Indonesian government has broadly mapped partner countries both in non-traditional markets (alternative markets) and traditional markets. In general, non-traditional markets have economic and prospective potential as market destinations. These countries include those in Central and Eastern Europe and some developing countries with large market potential, such as in Africa, South Asia, Latin America, and the South Pacific. Meanwhile, the traditional markets are located in North America, Western Europe, and Asia (Japan).[4]

Market diversification is not the wrong strategy, instead, Indonesia tends to emphasise the fact that, so far, it has not optimally treated Europe as a traditional export market. Given the fact that many regions of Europe are still overlooked and underutilised. Accordingly, Indonesia tends to forget the potential of emerging markets in the European continent and focus solely on Western European markets.

However, in the European Union there are also sub-regional groups with extraordinary potential as a potential sales and supply markets, namely the Visegrad Four (V4) which is a group of four Central and Eastern European countries (Czech Republic, Hungary, Poland, and Slovak Republic) with one of the highest economic rates of growth in Europe. When it comes to European markets, Indonesia tends to limit its attention to

[3]European Commission, "European Economic Forecast Summer 2019," accessed October 8, 2019. https://ec.europa.eu/info/sites/info/files/economy-finance/ip108_en.pdf.
[4] Sulthon Sjahril Sabaruddin, "Penguatan Diplomasi Ekonomi Indonesia Mendesain Clustering Tujuan Pasar Ekspor Indonesia: Pasar Tradisional vs Pasar Non-Tradisional," *Jurnal Ilmiah Hubungan Internasional*, Vol 12, no. 2 (2016): 205–219.

the Western European countries and forget the fact that there is a V4 with the fastest economic growth, around 4.1 %, well above the EU average of around 1% in 2018.

If the Western European market, labelled as a traditional market, becomes a saturating market, this would not embrace the V4 as a non-traditional market. The prospect of economic cooperation with Europe actually finds opportunities with groups of European countries such as V4 with the fastest economic growth.

The market size of four V4's, considered as one market, is the fifth largest market in Europe and has an increasingly prominent bargaining position in the European Union. In 2018, the mutual turnover of V4 and Indonesia reached around 1 billion USD with the support of exports of Indonesian manufactured products (UN Comtrade, 2019). Although Indonesia's cooperation with the V4 countries in trade continues to increase, its market share is still relatively small. Compared to other Association of Southeast Asian Nations (ASEAN) countries such as Singapore and Vietnam, the trade turnover between Indonesia and each of the V4 member countries is relatively much smaller.

The agreement between Indonesia and the EU shapes the conditions of mutual trade between Indonesia and the V4. Indonesia, as a member of the World Trade Organisation (WTO), still enjoys special treatment in the form of low tariffs for several products under the EU Generalised Scheme of Preferences (GSP) scheme. With the adoption of GSP tariffs in Indonesia for its partner countries such as the European Union, Indonesia has benefited where around 30% of Indonesia's total imports are subject to lower tariffs for some of its export products and the rest are subject to the Most Favoured Nation (MFN) tariffs. However, this GSP facility will be removed if Indonesia upgrades its status from a lower-middle-income country.[5]

In line with the GSP tariff, import duties on finished goods from Indonesia to the European Union are still quite high at around 5-20%. They are widely applied on several commodities such as wood, textiles, and shoes.[6] Although the European Union has eliminated import duties on the same commodities from Vietnam and some other exporting countries that have ratified the Free Trade Agreement (FTA) with the EU. Meanwhile, Indonesia has still not completed the FTA negotiations with the EU. Currently, there has been a total of nine rounds of negotiations on the FTA between

[5]European Commission, "Countries and Regions: Indonesia," accessed October 28, 2019. https://ec.europa.eu/trade/policy/countries-and-regions/countries/indonesia/.
[6] Kementerian Perindustrian Indonesia, "Tarif Bea Masuk Eropa Dikeluhkan," accessed October 30, 2019 https://kemenperin.go.id/artikel/4955/Tarif-Bea-Masuk-Eropa-Dikeluhkan.

Indonesia and the EU. The tenth (forthcoming) negotiation round was planned in March 2020.[7] A free trade agreement, when completed and signed, will change the conditions of bilateral trade between Indonesia and the EU, having an impact on the current account balance. The future agreement between the EU and Indonesia will also change the conditions of trade between the V4 and Indonesia. This results from the fact that all members of the EU are subject to common European trade policy conducted within the customs union.

In comparison to Indonesia, trade agreements between the European Union and Singapore are far superior and profitable in many ways. In 2012, Singapore completed a Free Trade Agreement with the European Union and the agreement went into force in November 2019. The FTA between Singapore and the European Union has helped to boost the bilateral trade between the two economies. Additionally, the EU is Singapore's third-largest trading partner in goods, and Singapore is the EU's largest service trading partner in ASEAN.[8]

Another ASEAN country such as Vietnam has benefited from free trade cooperation with the European Union after the FTA has been ratified. Vietnam has signed a trade agreement with the EU which will take effect in May 2020. There are as many as 71% of Vietnam's export duties to the European Union that will be removed from the time the free trade agreement is enforced.[9] Vietnam currently has the highest total trade with V4. These are the reasons why Indonesia also wants to immediately finish negotiating new trade agreements with the EU, called the Comprehensive Economic Partnership Agreement (CEPA). Hence, Indonesia will also benefit from free trade with the European Union.

At the Trade Expo Indonesia (TEI) 2019, a number of Indonesian business transactions between Indonesian companies and countries in the V4 were recorded. This includes 35 million euros in the hydropower sector with Hungary, 1 million US dollars in the coffee sector with Slovakia, and 500 thousand US dollars in the palm oil product sector with Hungary. Furthermore, at the Indonesia-V4 Business Forum, Indonesia signed 8 contracts to send skilled workers within 6 Indonesian-Polish service, industrial and trade companies. These transactions show that Indonesia still needs to pay close attention

[7] European Commission, "Countries and Regions: Indonesia,"
[8] European Commission, "Countries and regions: Singapore," accessed October 30, 2019. https://ec.europa.eu/trade/policy/countries-and-regions/countries/singapore/.
[9] Dezan Shira, "Vietnam-EU Trade: EVFTA Ratified by EU Lawmakers," accessed April 22, 2020. https://www.vietnam-briefing.com/news/vietnam-eu-trade-evfta-ratified-eu.html/.

to the European market in the form of maintenance and improvement strategies, especially for countries such as V4.

In fact, the complementarity between the Indonesian and European Union markets in general, and particularly with the V4, opens up many opportunities for closer and more intensive economic relations. With the current trade conditions between the two markets complementarity cannot be optimally utilised. Furthermore, the prospects for economic cooperation, such as opening untapped markets and increasing sectoral cooperation, are still wide open. Thus, this study aims to further investigate the key factors that influence trade flows between V4 and Indonesia: what the obstacles are, and whether economic diplomacy might change the systematic factors and overcome all the trade barriers both tariff and non-tariff barriers.

B. Research Question

Based on the background described above, this study should be able to answer the main research question concerning goals for the negotiations of the economic diplomacy and aims of policies which should be formulated by Indonesia and the EU including the V4 to benefit more from their trade relations through the identification of existing trade barriers that restricted trade flows. I pose the main research question as follows: How can the activity of economic diplomacy influence trade between the Visegrad Four and Indonesia and change the systemic factors (including trade costs imposed by policies such as tariff and non-tariff barriers: quotas, limits, exchange rate policies along with trade costs imposed by the environment such as geographic distance, different languages, cultural diversity, and remaining obstacles)?

Furthermore, in order to be able to answer the main research question, the study identifies the problem and formulates sub-questions as follows:

1. What is the structure and value of trade between the V4 and Indonesia?
2. What is the correlation between the value of mutual turnover and the agreement liberalising trade between the European Union and Indonesia and how can it influence the V4 and Indonesian trade flows?
3. What are the key factors that influence trade flows between the V4 and Indonesia?

The aim of answering the main and sub-questions is to find out the trade relations (structure and value) between the V4 and Indonesia, and to further investigate whether the economic diplomacy and the comprehensive economic partnership agreement could increase the value of mutual turnover between the V4 and Indonesia. And finally, the aim is to contribute in introducing new research methods in evaluating trade relations between the V4 and Indonesia that can be useful to formulate a more effective and solution-oriented trade policy and agreement in both multilateral as well as bilateral format. Hence, economic relations can be carried out accurately.

C. Methodology and Data Collection

The study will use data collection techniques through the critical literature review that is based on secondary data sources from the literature in the form of primary literature such as original papers (journals and articles), reviews of text-books, documents, government, and non-government agency reports as well as data contained on websites. In order to be able to analyse the data, this study will use three different approaches that are intertwined.

The first method is the quantitative descriptive method that aims to describe or explain the current bilateral trade agreement between the V4 and Indonesia. Additionally, because the V4 countries are part of the EU member countries, hence, with the presence of the European Union's Joint Commercial Policy (CCP) that includes the European Common Trade Policy (ETP), trade agreements between the V4 and Indonesia can only be done through the CCP scheme. The trade agreement will be carried out by the European Parliament on behalf of Member States (MS) and later the agreement will be ratified by the EU and MS including the V4 countries. Moreover, this means that the majority of trade conditions from the V4 are decided within the ETP which cover tariff barriers imposed to a partner country such as Indonesia. Unlike tariff barriers, some of the non-tariff barriers are decided on the national level. Accordingly, I will discuss some of the current trade barriers that hamper the trade flows between the V4 and Indonesia.

The second method is the historical research method. This part will elucidate the historical reality of the bilateral trade relations between the V4 and Indonesia by displaying the trends in the past (2008-2018). In the last stage of the research method, I will conduct a comparative analysis, that aims to compare the similarities and differences as well as the trends in the past with the current condition of the bilateral trade relations each of the V4 countries, namely the Czech Republic, Hungary, Poland, and Slovakia, has with Indonesia. In this analysis, I will further elaborate on the comparison by using the Strength, Weakness, Opportunities, and Threat (SWOT) scheme for the analysis.

Finally, I will try to answer the research question on whether the economic diplomacy and the new trade agreement could increase the value of mutual turnover between the V4 and Indonesia. This is followed by giving several recommendations on the cooperation sector that has the most potential to be developed for bilateral cooperation between each V4 country and Indonesia.

D. Outline of Case Study (Explanation of how the structure of the research will help to test the hypothesis and answer the research questions)

Before conducting research, the author has outlined studies to determine the main problems covered by the research questions. The outline of this research consists of descriptions of the tasks and the logical sequence of the planned research. This scope has been used as a basic document for control and evaluation purposes. Therefore, the scope of this research work covers the following issues:

1. Theoretical and conceptual framework

   This study starts by providing the theoretical and conceptual framework as a guide to facilitate an overall background, a reference to the objective of the research, and as a tool or instrument to test the hypothesis. This theoretical framework aims to help understand and analyse the problem. The concepts and theories that will be used as references in this research are foreign policy, liberalism, mercantilism, economic diplomacy, and international trade.

2. International trade agreement

   In this part, the study will explain the current trade agreement between the V4 and Indonesia as an independent or explanatory variable. Here, this study will start by discussing the world trade agreements in the context of a multilateral trading system e.g., General Agreements on Tariffs and Trade/ World Trade Organisation (GATT/WTO), Regional Trade Agreements (RTA), Common Commercial Policy/ Common Trade Policy of the EU, Tariff Preferential Agreement (TPA), and General Scheme Preferences of the European Union and Indonesia.

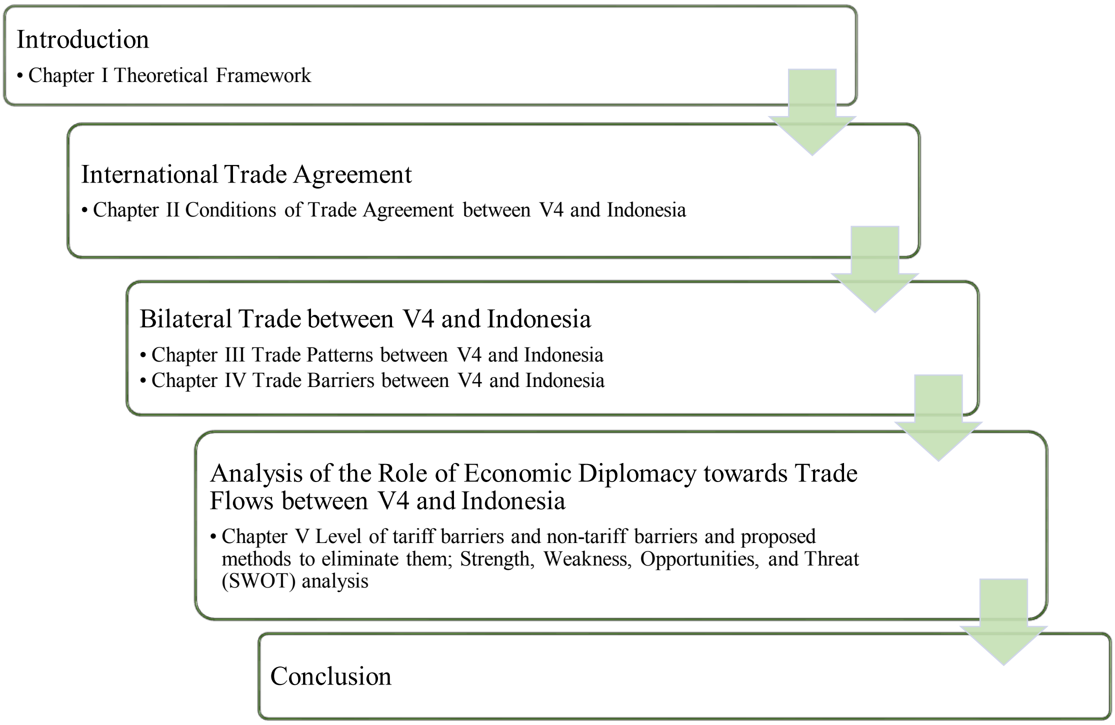
3. Trade patterns and barriers to trade flows between the V4 and Indonesia

   This part will convey the dependent variable. Here, the trade patterns and bilateral trade relations between the V4 and Indonesia will be discussed thoroughly, followed by the explanation of the barriers of Indonesian trade flows to the V4 and vice versa.

4. Analysis of the role of economic diplomacy towards trade flows between the V4 and Indonesia

In the final part, an analysis will be conducted to answer the research question. The study will start by discussing the level of tariff barriers and non-tariff barriers and proposed methods to eliminate them by using comparative and swot analysis to find out the role of economic diplomacy towards trade flows between the V4 and Indonesia.

Chart 1. Structure of the thesis



E. Limitation of Case Study

Methodologically, this study will be divided into two phases: 1) descriptive and 2) explanatory. This case study will focus on V4 and Indonesia's trade flows of goods. It will include all merchandising goods in the descriptive part and selected products (cases) in the explanatory part of the thesis. Studies on services are excluded here. In the analytical part, I will compare each political entity specified in the SWOT analysis part. There will be several selected sectors for each political entity/country. Moreover, this study will not cover the foreign direct investment in detail as a part of economic diplomacy.

Chapter I. Theoretical Framework and Literature Review

This chapter starts by providing the theoretical and conceptual framework as a guide to facilitate an overall background, a reference to the objective of the research, and as a tool or instrument to test the hypothesis. This theoretical framework aims to help understand and analyse the problem. The concepts and theories that will be used as references in this research are foreign policy, liberalism, mercantilism, economic diplomacy, and international trade.

1.1. Foreign Policy

In examining the potential for increasing trade cooperation between the V4 and Indonesia, this study uses a theoretical framework which contains the theories of experts and concepts that are correlated along with issues raised. Hence, they are expected to be used to answer the aforementioned problem formulation. The first theory used to analyse the data is the theory of foreign policy, a complex study as it involves not only external aspects but also internal aspects of a country.[10] Foreign policy is a strategy or plan of action made by state decision-makers in dealing with other countries or other international political units to achieve specific national interests and was determined by who was in power at that time.[11] To fulfil their national interests, the countries and actors of these countries undertake various kinds of cooperation including bilateral, trilateral, regional and multilateral cooperation.

One tangible form of foreign policy that aims to fulfil national interests is the participation of various countries in international trade. The concept of international trade here is seen as a trade liberalisation or trade openness of one country to other countries. Moreover, trade liberalisation is defined as an act of removing or reducing restrictions or barriers to the free exchange of goods between nations and encouraging free trade. These barriers include tariffs, such as duties and surcharges, and nontariff, such as licensing rules, quotas, limits, and exchange rate policy.[12]

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[10] James N. Rosenau, Gavin Boyd and Kenneth W. Thompson, *World Politics: An Introduction* (New York: The Free Press, 1976), 15.

[11] Mochtar Mas'oed, *Ilmu Hubungan Internasional: Disiplin dan Metodologi*. Jakarta: LP3ES, 1994; J. C. Plano and Roy Olton, *Kamus Hubungan Internasional*. Bandung: Abardin, 1999.

[12] Investopedia, "Trade Liberalisation," accessed October 28, 2019. https://www.investopedia.com/terms/t/trade-liberalization.asp.

1.2. Mercantilism, Realism, and Liberalism

In the concept of International Political Economy (IPE), there are three main theories that explain the rationality behind the formulation of a country's foreign trade policy. They are mercantilism, realism, and liberalism. These theories can also be used to construct the bilateral economic relations between each of the V4 and Indonesia. The state, in interacting with other countries, can be in the form of interdependent cooperation or can lead to conflict. In this study, these main theories will be discussed in more detail to find out which theory better describes the relationship of economic diplomacy between the V4 and Indonesia.

On one hand, we can approach economic diplomacy from the point of view from mercantilism. During the 16th to the 18th centuries, from 1500 to 1750 to be exact, the concept of mercantilism was popularly applied in various countries in Europe.[13] In this view, the economy is used as a political tool and a basis for political power. The international economy is seen as an arena of conflict between conflicting national interests, rather than as an area of mutually beneficial cooperation. The economy is subject to increasing state power and politics, taking precedence over the economy. The state as the main actor has an important and pivotal role in the economic system. The nature of economic relations in the view of mercantilism is seen as a conflict and a zero-sum game in which profits for one country is interpreted as losses for another country.[14]

In relation to international trade, the main focus of economic diplomacy is to emphasise the promotion of exports both through export subsidies and opening markets through bilateral relations, with the aim of promoting a balance of trade that is beneficial to the parties that carry out such cooperation.[15] Bergeijk et al. argue that there are two conditions which form the basis of rationalisation from government interference in international markets. The first condition is that the benefits of intervention must exceed the costs incurred and the second condition is that the intervention must target sources of

[13] George Louis Beer, *The Commercial Policy of England Toward the American Colonies* (New York: Columbia College, 1885).

[14] Jack D. Douglas, "The Welfare State as a Zero-sum Game" Foundation for Economic Education. Last modified July 1, 1980. https://fee.org/articles/the-welfare-state-as-a-zero-sum-game/.

[15] Robert B. Ekelund Jr and R. F. Hébert, *A history of economic theory and method* (Long Grove, Illinois: Waveland Press, 2014); D. A. Irwin, "A Brief History of International Trade Policy." Library of Economics and Liberty. Last modified Nov 26, 2001. https://www.econlib.org/library/Columns/Irwintrade.html.

inefficiency.[16] According to mercantilists, economic diplomacy is one of the interventions that can be carried out by governments in international markets.[17]

On the other hand, there is a concept of realism. Realism was one of the dominant paradigms in international relations between 1930 and 1970.[18] Realism is constructed on power politics and national interests. Accordingly, in this paradigm, the state tries to maximise its power to achieve its national interests in military security and international trade.[19] Moreover, this state-centric approach can be seen as continuation of mercantilism which was aimed at maximisation of exports. Thus, the nature of economic relations and security in the view of realism is similar to mercantilism, which is seen as a zero-sum game in which profits for one country is interpreted as losses for another country.

Finally, there is a concept of liberalism that can also be used to understand economic diplomacy. It was originally the idea of a French physiocrat thinker, Francois Quesnay, with the idiom that became the very famous "Laissez-Faire, Laissez-Passer".[20] The core idea is a criticism of government interference on the market because generally, the action is detrimental to the market. In this view, the relationship between economics and politics, namely the market economy, is an autonomous area of an economic system that runs according to its economic law without any intervention of the state or government. The main actor of this concept is an individual, where the market tends to maximise the interests of all individuals participating in market exchanges. Accordingly, the nature of economic relations is seen as a cooperative and a positive-sum game.

Furthermore, this idea was then continued by Adam Smith with his idea of the superiority of the market mechanism and limited government intervention which he called "invisible hand". According to him, every individual is always trying to find opportunities to use every capital he controls to get the maximum profit. Of course, what he thought was profit for himself, not profit for society. But when pursuing personal gain,

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16 Peter Adrianus Gerrit van Bergeijk, Henri L. F. de Groot and Mina Yakop, "The Economic Effectiveness of Diplomatic Representation: An Economic Analysis of its Contribution to Bilateral Trade", *The Hague Journal of Economic Diplomacy* 6, no. 1–2 (2011): 101–120.

17 Selwyn Jurre Vincent Moons, "Heterogeneous Effects of Economic Diplomacy: Instruments, Determinants and Developments," pp.1 (PhD diss., Erasmus University Rotterdam, 2017).

18 Beth A. Simmons and Lisa L. Martin, "International Organizations and Institutions," in *Handbook of International Relations,* edited by W. Carlsnaes, B. A. Simmons, and T. Risse (London: Sage Publishing, 2002), 192–211.

19 H. J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace* (New York: Alfred A. Knopf, 1948); Stephen D. Krasner, "State power and the structure of international trade," *World Politics* 28, no. 3 (1976): 317–347.

20 Pierre-Samuel Du Pont de Nemours, "De l'origine et des progrès d'une science nouvelle" edited by Auguste Dubois (Paris: Paul Geuthner, 1910).

by itself, then indirectly, he will choose the fields of activity that are most beneficial for his society.[21]

In relation to Smith's idea, David Ricardo, who is also the founder of the classical liberal idea, gave his opinion on free trade between nations as the foundation of economic relations between countries. Free trade can unite nations throughout the world as a bond of interest and interaction. With this kind of bond between countries become effective and efficient. Effective and efficient here are interpreted as parameters which are resulted from economic freedom.[22] Economic freedom does not eliminate state and intervention, but state and its presence are limited by institutional and legal arrangements. Liberal though assumes that intervention in one market causes similar reactions in remaining markets, which overall increases the cost of such activity. This approach has changed the engagement of state on the national level as well as in regional policies (EU and OECD) and globally (GATT/WTO).

Thus, it can be said that the concept of liberalism is a view that prioritises the principle of cooperation within it and sees from the point of view of humans as individuals who have an optimistic nature to obtain their interests by establishing cooperative relationships with other individuals. Here, the economic diplomacy in realising free markets with the effort of trying to eliminate and remove the trade barriers is seen as the act that derives from the idea of laissez-faire. Thus, this effort leads to a free trade agreement.

1.3. Economic Diplomacy, Trade Diplomacy, and Commercial Diplomacy

Diplomacy's actions as the implementation of a country's foreign policy can be carried out in various fields, for instance: in defence and security, in politics, in economics, and in culture, in health, etc. In this study, diplomacy will focus on the economic dimensions that are closely related to international trade. Trade here is defined according to the general trade definition of the WTO. It includes all types of movements of goods inward and outward through a country or region, including movements through customs warehouses and free zones. The group covers primary products such as agricultural products, mining products, manufactures such as machinery, iron and steel, chemicals,

[21] Adam Smith, "An Inquiry into The Nature and Causes of the Wealth Nations," in *The Glasgow Edition of The Works and Correspondence of Adam Smith*, edited by R. H. Campbell and A. S. Skinner, (Oxford: Oxford University Press, 1976), 456.
[22] David Ricardo. *On the Principle of Political Economy and Taxation* (London: John Murray, 1821), 4.

textiles, clothing, other consumer goods, etc., and other products that are not classified elsewhere.[23] Accordingly, these goods will be used for the object of the analysis on V4 and Indonesian trade flows of goods.

Economic diplomacy can be interpreted as the use of a country's full spectrum economic tools to achieve its national interests.[24] Okano-Heijmans classifies economic diplomacy into commercial diplomacy and trade diplomacy. Commercial diplomacy comprises trade promotion, investment promotion, business advocacy, and tourism promotion. Whereas trade diplomacy encapsulates bilateral trade agreements (Free Trade Agreements and Economic Partnership Agreements), multilateral trade agreements (World Trade Organisation), anti-dumping tariffs, export or import licences, export or import quotas, trade and investment barriers.[25] The entire component must be utilised optimally by the government so that the foreign policy strategies, through economic diplomacy, can be successful to optimise national profits in all fields at bilateral, regional, and multilateral levels.[26]

Additionally, economic diplomacy that encompasses the practice of both government relations and influence is increasingly being used by countries to foster international trade. There are several tools used in economic diplomacy such as meetings on a high level between officials, business forums and seminars, trade missions, bilateral and multilateral commissions, etc. The use of trade missions as the tool in economic diplomacy can be seen through the internationalisation of their companies, including Indonesia with the presence of trade attaché and Indonesian Trade Promotion Centre as its representative abroad.[27] Both of them have the same goal, which is to stimulate business to business relations and to stimulate Indonesian exports through collaboration

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[23] WTO, "Technical notes: International Trade Statistics," accessed May 9, 2020. https://www.wto.org/english/res_e/statis_e/technotes_e.htm.

[24] P. A. G. van Bergeijk and S. J. V. Moons. 2009, "Economic Diplomacy and Economic Security" (paper presented at New Frontiers for Economic Diplomacy, Lisbon at Instituto Superior de C Ciéncias Sociais e Politicas, May 16, 2007, 2). https://papers.ssrn.com/sol3/papers.cfm?abstract id=1436584.

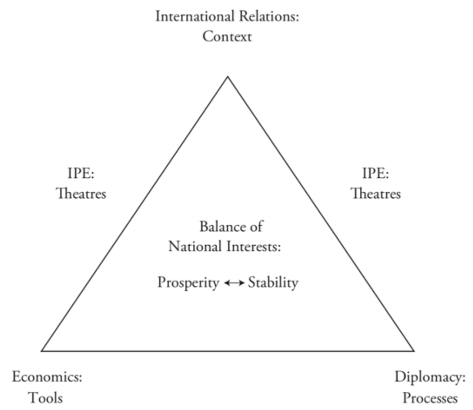
[25] M. Okano-Heijmans, "Conceptualizing economic diplomacy: The crossroads of international relations, economics, IPE and diplomatic studies," *The Hague journal of diplomacy* 6, no. 1–2 (2011): 19–20.

[26] Kishan S. Rana, "Economic diplomacy: the experience of developing countries," in *The New Economic Diplomacy: Decision-Making and Negotiations in International Relations,* edited by Nicholas Bayne and Stephen Woolcock (London: Ashgate Publishing, 2007), 201–220.

[27] P. A. G. van Bergeijk, Economic Diplomacy and the Geography of International Trade (Cheltenham: Edward Elgar, 2009), 69–92; S. J. V. Moons, "What are the effects of economic diplomacy on the margins of trade?." *International Journal of Diplomacy and Economy,* Vol. 1, no. 2 (2012): 147–162; S. J. V. Moons and P. A. G. van Bergeijk, "A meta-analysis of economic diplomacy and its effect on international economic flows." *ISS Working Paper Series/General Series* 566 (2013): 1–30.

with various activities with export promotion agencies.[28] This trade mission is seen as effective because it helps countries to gain access to information and have networks in host countries. Thus, in addition to promoting foreign trade and investment, trade missions also create incentives for business and support the best practices on responsible business behaviours.[29]

Chart 1.1. Analytical Framework for Study on Economic Diplomacy



Source: Maaike Okano-Heijmans, "Conceptualizing economic diplomacy: The crossroads of international relations, economics, IPE and diplomatic studies," The Hague journal of diplomacy 6, no. 1–2 (2011): 21.

Furthermore, according to Okano, there are four main elements of economic diplomacy such as the context, tools, theatres, and process. These elements can provide a thorough understanding of a country's economic diplomacy, namely how economic diplomacy is incorporated in the pursuit of a balance of (national) interests. Chart 1.1. illustrates how the concepts (at the three angles, the side and the core of this triangular analytical framework) are separate but intertwined. Here, economic diplomacy can also be understood through International Relations (IR) approach with various levels that illustrate the *context* in which economic diplomacy is implemented, namely in the interactions between the domestic and international sphere, and between politics and economics. Additionally, the *tools* of economic diplomacy such as what instruments are used by the government and whether they have the expected effect are the main focus of economists' interests in the effectiveness of economic diplomacy activities. Through IPE, we can find out the structures and institutions in international relations that facilitate

[28] Olivier Naray, "Commercial diplomacy: A conceptual overview" (paper presented at the 7th World Conference of TPOs, The Hague, The Netherlands, October 13, 2008, 2–6); Daniel Lederman, Marcelo Olarreaga, and Lucy Payton. "Export promotion agencies: Do they work?." *Journal of Development Economics* 91, no. 2 (2010): 257–265.

[29]OECD, "Responsible business conduct and economic diplomacy tools," accessed May 9, 2020. https://mneguidelines.oecd.org/Responsible-business-conduct-and-economic-diplomacy-tools.pdf.

theatres appraisals (negotiating meetings, such as international institutions) related to economic diplomacy.[30]

The more practical handling *processes* of economic diplomacy by scholars of diplomatic study can be seen in the analysis of how negotiations take place in various modes and environments (such as in summits, regional diplomacy, and bilateral and multilateral economic or monetary institutions), which tactics are used to achieve strategic goals, as well as the motivation and interests of the parties involved. Economic diplomacy actors are subject or object of analysis in each of the four fields (economic diplomacy in international relations, economists' perspective on economic diplomacy, economic diplomacy and international political economy, and diplomacy and negotiation: foreign policy and national interests). Although the state is the main actor and thus is the core of this process, many other actors have a voice in (which eventually becomes) foreign and economic diplomacy.[31]

1.4. The Importance of International Trade

The concept of international trade here is seen as a trade liberalisation or trade openness of one country to other countries. It is a set of actions that aim to exchange of goods, services, and capital between foreign countries across their international borders. Moreover, trade liberalisation is defined as an act of removing or reducing restrictions or barriers to the free exchange of goods between nations and encouraging free trade. These barriers include tariffs and non-tariffs; tariff barriers, such as duties and surcharges; non-tariffs, such as licensing rules and quotas.[32] Concerning the international trade that will be discussed, it is going to focus on the value of mutual turnover as the result of the total export and import, net exports (current account balance), main export and import commodities from the V4 and Indonesia.

Relations between countries are based on similarities between them. These similarities include language, geography, and ideology, as well as political and economic interests that bind relations between these countries and the world community.

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[30] Okano-Heijmans, "Conceptualizing economic diplomacy: The crossroads of international relations, economics, IPE and diplomatic studies," 20.
[31] Okano-Heijmans, "Conceptualizing economic diplomacy: The crossroads of international relations, economics, IPE and diplomatic studies," 20–21.
[32] Investopedia, "Trade Liberalisation."

Additionally, some scholars have stated the link between foreign trade in economic development and in efforts to improve the welfare of the community.[33]

International trade can help countries strengthen their economic growth. Through the income generated, it will help them to reduce poverty within their country. According to many economists, trade liberalisation is an important step in the realisation of prosperity through the benefits of trade derived from international trade activities.[34] Thus, it would be more beneficial for these countries to be actively involved in international trade than to domestically produce on their own.

According to Sadorno Sukirno, international trade can make several contributions which will ultimately be able to advance the economic development of a country. The advantage of the existence of international trade allows a country to expand the market of its products and allows a country to use technology with better conditions than those found in the country.[35] International trade is an important aspect of conducting international economic cooperation. In implementing trade relations with other countries, a country basically wants a mutual benefit from its economic relations.[36]

The role of a country in international trade is important, based on different conditions and economic resources that are owned by each different country. This form of international trade can be in the form of exports and imports. Recognising that each country has its own strengths and weaknesses in the factors of production, it must naturally specialise based on its strengths to benefit from the economics of scale. Hence, each country must be aware of its measured strengths (advantages) and weaknesses (disadvantages).

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[33] Smith, "An Inquiry into The Nature and Causes of the Wealth Nations," 452–472.; D. Ricardo, *On the Principles of Political Economy and Taxation* (London: John Murray, 1821); J. S. Mill, *Principles of Political Economy* (London, England: John W. Parker, 1848).

[34] Jagdish N. Bhagwati, *Protectionism.* London: The MIT Press, 2000; Paul R. Krugman and Maurice Obstfeld, *International Economics: Theory and Policy* (New York: Addison Wesley, 2003); Jeffrey A. Frankel, "Assessing the efficiency gain from further liberalization." In *Efficiency, equity and legitimacy: The Multilateral Trading System at the Millennium, eds*. Roger B. Porter, 81–113. Washington DC: Brookings Institution Press, 2001; Thomas W. Hertel, Maros Ivanic, Paul V. Preckel, and John A. L. Cranfield, "The Earning Effects of Multilateral Trade Liberalization: Implications for Poverty." *The World Bank Economic Review* 18, no. 2 (2004): 205–236.

[35] Sadono Sukirno, *Ekonomi Pembangunan Proses, Masalah dan Dasar Kebijaksanaan* (Jakarta: FE-UI, 1981), 225.

[36] P. R. Krugman and M. Obstfeld. *International Economics: Theory and Policy,* 10–12.

Chapter II. Conditions of Trade Agreements

In this chapter, the study will explain the current trade agreement between the V4 and Indonesia as an independent or explanatory variable. Here, this study will start by discussing the world trade agreements in the context of a multilateral trading system e.g., General Agreements on Tariffs and Trade/ World Trade Organisation (GATT/WTO) and Regional Trade Agreements (RTA), followed by Common Commercial Policy/ Common Trade Policy of the EU, Tariff Preferential Agreement (TPA), and General Scheme Preferences of the European Union and Indonesia. The description of the multilateral trading system will provide an overview of the position of Indonesia and V4 as members of the WTO and regional integration organisations. This indicates that Indonesia and V4 as members of the WTO are subject to applicable trade rules based on WTO regulations. Likewise, V4, as a member of a regional integration organisation, namely the European Union, must follow the common trade rules, EU's Common Trade Policy, which is signed by the European Union with its partners inter alia Indonesia. Thus, V4 membership in this organisation determines the conditions of their mutual trade.

2.1. World Trade Organisation (WTO) Agreement

The WTO multilateral trade cooperation agreement is the result of the Uruguay round. It can be defined as a free trade agreement on the exclusive rights of the signatory countries in developing and implementing trade policies in the open economic system. This agreement consists of sixty agreements, attachments, and various decisions.[37] In short, the agreements consist of six parts including an umbrella agreement containing an agreement on the establishment of the WTO; agreements for each of the three major issues namely goods, services, and intellectual property rights; dispute resolution; and a review of the trade policies of member countries.[38]

There are three major issues addressed in the WTO agreement:

a. General agreement on tariff goods and goods, which is a general agreement on the liberalisation of goods trade. This consists of several more agreements

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[37]WTO, "WTO legal texts," accessed March 2, 2020. https://www.wto.org/english/docs_e/legal_e/legal_e.htm.

[38]WTO, "Overview: a navigational guide," accessed March 2, 2020. https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm1_e.htm.

such as agriculture, shipping inspection, anti-dumping arrangements, textiles and textile products.

b. General agreement on trade in services. In expanding service sector market access, each country draws on liberalisation commitments and an implementation schedule on how many outside service suppliers can provide services locally.

c. Intellectual property rights related to trade.

These WTO agreements are dynamic and constantly changing. There are main elements in WTO agreement such as:

a. Decrease rates

This element aims to eliminate or reduce tariffs on a product to reduce export costs, thereby opening additional markets for producers.

b. Most Favoured Nation (MFN)

This element requires the government to treat all member countries, investments, and foreign companies in the same way from a legal perspective or in other words non-discrimination.

c. National Treatment

This element requires all member countries to treat all countries, investments, and companies equally with investors and domestic companies. For example, the government should not provide subsidies only for certain local companies that meet environmental criteria.

d. Elimination of quantitative restrictions

This element does not allow the use of restrictions other than tariffs and state duties may not limit exports or imports by setting quotas to limit the flow of goods.[39]

Furthermore, since the entry into force of the WTO, every legislation, policy, and trade action must refer to and be guided by the WTO Agreement. In other words, the WTO agreement is also the agreement of the international community regarding the standardisation of policy making, legislation, and trade measures. Exclusive rights obtained by the signatories of the WTO free trade agreement, which apply multilaterally, regionally or bilaterally, consist of 2 (two) types of rights as well as two sides of a coin. These two types of rights are:

[39]WTO, "Legal texts: Uruguay Round Final Act," accessed March 2, 2020. https://www.wto.org/english/docs_e/legal_e/ldc2_512.htm.

a. The right to use the resources of access to international trade markets.

b. The right to protect the nation from the negative excesses of international trade.[40]

On one hand, each WTO Member State has the right to make policies in the context of utilising international market access resources for export, import, and investment purposes. On the other hand, each WTO Member also has the right to make trade policies in order to protect the nation from the negative excesses of international trade in the form of tariff, para-tariff, and non-tariff policies. The right to make trade policies is seen as a form of state intervention which is considered to have protectionist intentions. The WTO agreement regulates tariffs according to each member's schedule or market access schedule. Similarly, the agreement also regulates an additional tariff, called para-tariffs that are imposed on imported goods. Meanwhile, non-tariff policy formulation must be guided by its designation, such as trade remedy agreements, standardisation, import licensing, intellectual property rights, investment, sanitary and phytosanitary, and others.[41]

2.2. Multilateral Trade Agreements

Multilateral trade agreements are commerce treaties created by three or more countries, between a bloc and a country, and between two blocs. The agreements aim to reduce tariffs and make it easier for businesses to import and export. However, because they are among many countries, they are more difficult to negotiate and to conclude.[42] The agreements include WTO agreement, ASEAN Free Trade Area (AFTA), Central European Free Trade Area (CEFTA), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP), European Free Trade Association (EFTA), European Economic Area (EEA), Common Market of the South (MERCOSUR), to name a few.

Since the days of the Silk Road, the multilateral trading system has been well-known and has become more important after World War II, when countries try to restore their economic conditions due to a world war and global economic depression. These countries realised that cooperation between them was needed in achieving economic growth and world peace. It was then that the General Agreement on Tariffs and Trades

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[40] Sulistyo Widayanto, "WTO Melindungi Kepentingan Domestik Negara Anggotanya Secara Optimal." *Jurnal Tinjauan Perdagangan Indonesia*, No. 35 (2016): 2–3.
[41] Widayanto, "WTO Melindungi Kepentingan Domestik Negara Anggotanya Secara Optimal," 4.
[42]Kimberly Amadeo, Multilateral Trade Agreements with Their Pros, Cons and Examples," accessed March 2, 2020. https://www.thebalance.com/multilateral-trade-agreements-pros-cons-and-examples-3305949.

was signed in 1947. From 1948 to 1994, the GATT established a common ground among the world's trading nations. In 1995, the Uruguay Round of GATT which ended with 128 members was replaced by the World Trade Organisation. In comparison to GATT, the WTO currently has 164 members with additional tasks to monitor and mediate trade agreements. Accordingly, it also monitors the trade in services and the use of intellectual property between nations and capital transfers.[43] This increase in membership means that the number of states that have decided to cut the protection of their national market is increasing. This means more opportunities to export and import for the members. This also means an intensification of competition.

2.3. Regional Trade Agreements (RTAs)

Regional trade agreements refer to a treaty that is signed by two or more countries to encourage more free movement of goods and services across the borders of its members than from outside the region.[44] The treaty defines the rules of trade for all signatories. It also includes any agreement involving tariffs lower than most-favoured nation rates. The agreements include the North American Free Trade Agreement (NAFTA), Central American-Dominican Republic Free Trade Agreement (CAFTA-DR), the European Union (EU), and Asia-Pacific Economic Cooperation (APEC). [45]

Both Indonesia and V4 are members of regional integration organisations. Indonesia as a part of the ASEAN is subject to the rules of trade signed by the ASEAN. Similarly, V4 as members of the EU is subject to the rules of trade signed by the EU. This regional trade agreement brings benefits for Indonesia and V4, which can benefit from the tariffs lower than most-favoured nation rates.

2.4. Common Commercial Policy/ Common Trade Policy of the EU

The Common Commercial Policy (CCP), also known as the EU Joint Commercial Policy, is an exclusive competence of the EU in which the EU manages trade policy, trade negotiations, and investment agreements on behalf of the Member States (MS). It is an agreement that emerged in the stages of the first 12 years of integration within the

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[43] WTO, "History of the multilateral trading system," accessed March 2, 2020. https://www.wto.org/english/thewto_e/history_e/history_e.htm.

[44] WTO, "Regional trade agreements," accessed March 2, 2020 https://www.wto.org/english/tratop_e/region_e/region_e.htm.

[45] The World Bank, "Regional trade agreements," accessed March 2, 2020 https://www.worldbank.org/en/topic/regional-integration/brief/regional-trade-agreements.

European Economic Community (EEC) period aimed to smoothen the establishment of a joint market (1957-1969). The process of integration within the EEC since 1957 went through a process of deepening (including new areas or intensifying ties in areas earlier covered by integration) and widening (increasing number of members) that is continued today.

This policy covers all trade in goods, eliminating customs duties or equivalent fees, non-tariff and para tariff barriers in trade between MS, and setting common external customs tariffs. This common policy was needed by the EU to protect the common interests of member countries. With the presence of a common trade policy, the EU could avoid problems such as free riders, namely third-country exporters that will only enter the internal market through member states with the lowest tariffs in order to take advantage of free movement throughout the region.[46]

To overcome this, MS needed to merge their resources and delegated a portion of their trade policy competences to the international level. In other words, the purpose behind the creation of the CCP was also to increase the international bargaining power of the Community and influence trade liberalisation with third countries. In practice, the CCP means that common customs duties must be determined by the Council based on a proposal from the Commission, which will also carry out other tasks assigned to it.[47] The Commission would submit the Council proposals for implementing the CCP, recommend the opening of negotiations, and then conduct them; this is still the case today. Accordingly, because V4 countries are part of the EU member countries, hence, with the presence of the European Union's CCP that includes the European Common Trade Policy (ETP), trade agreements between the V4 and Indonesia can only be done through the CCP scheme. The trade agreement will be carried out by the European Parliament on behalf of MS and later the agreement will be ratified by the EU and MS including the V4 countries. Moreover, this means that the majority of trade conditions from the V4 are decided within the ETP which cover tariff barriers imposed to a partner country such as Indonesia. Unlike tariff barriers, some of the non-tariff barriers are decided on a national level.[48]

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[46]Titievskaia, "EU Trade Policy".
[47]Eur-Lex "Common Commercial Policy," accessed March 11, 2020. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3Aa20000.
[48]European Parliament, "Non-tariff barriers in the Single Market," accessed March 11, 2020. https://www.europarl.europa.eu/doceo/document/TA-8-2016-0236_EN.html.

2.5. Tariff Preferential Agreement

Preferential trade arrangements (PTAs) are one of the exclusive competences of the EU's Common Commercial Policy. The arrangement allows trading partners to grant preferential terms in the context of their trade with each other. They can be either reciprocal or unilateral. The EU's preferential arrangements aim to reduce or even remove tariff barriers (taxes, custom duties) and tariff-rate quotas. There are various examples of forms of trade arrangements based on the PTA agreements including Rules of Origin, Free Trade Agreement (FTA), Economic Partnership Agreements (EPAs), and General Schemes of Preferences (GSP). The bilateral relations between Indonesia and the V4 is an example of a later form of trade arrangements. There is no single terminology for the EU free trade agreement. It mainly depends on the purpose of the agreement.

The purpose of reducing or even removing tariff barriers is to increase trade, economic growth, employment, and consumer benefits for both parties. Up to date, the EU grants preference without reciprocity to provide developing countries tariff-free access to the EU market, thereby contributing to poverty eradication and promoting sustainable development. [49]

By the end of 2013, there were 39 applicable PTAs covering trade between the EU and 180 countries and also some dependent territories. In 2011, the total value of imported goods coming into the EU under PTAs represented 14% of the EU's total imports, which accounted for more than 242 billion euro. The PTA's negotiation can only be done by the Commission that will assess and evaluate its economic, social, and environmental effects and supervise its application by the Member States and partner countries.

The main responsibility for supervising the EU's international trade is carried by the Member States' customs authorities. They are particularly implementing measures to protect the EU's financial interests and protect them from unfair or illegal trade practices while enforcing legitimate trade. Countries' authorities/recipient partners are responsible for checking whether these agreements are complied with, thus playing an important role in determining the initial status of 'originating' from the products.[50]

[49] European Court of Auditors, *Are preferential trade arrangements appropriately managed?* (Luxembourg: Publications Office of the European Union, 2014), 8–12, accessed March 10, 2020. https://www.eca.europa.eu/Lists/ECADocuments/SR14_02/QJAB14002ENC.pdf.

[50] European Parliament, "Working Document: on European Court of Auditors Special Report No 2/2014 (2013 Discharge) "Are Preferential Trade Arrangements adequately managed?," accessed March 13, 2020. https://www.europarl.europa.eu/meetdocs/2014_2019/documents/cont/dt/1030/1030522/1030522da.pdf.

2.6. General Scheme Preferences of the EU-Indonesia

A General Scheme Preference (GSP) is a trade policy of a country or market that provides import duty cuts to recipient country export products. GSP was introduced by GATT/WTO which means that states using GSP apply similar solutions. GSP is generally a unilateral trade policy advanced by developed countries to help the economy of developing countries but is not binding for both donor and recipient countries. Currently, around twelve countries have GSP mechanisms in place. The country that owns the GSP programme can freely determine which countries and products will be given a cut in import duties. One of the countries that owns the GSP programme is the EU. The EU's GSP is a unilateral trade arrangement policy. It grants developing countries and territories preferential access to its market in the form of tariff reduction for their exports. The objective is to help developing countries in alleviating poverty and create jobs based on international values and principles, including labour and human rights.[51]

The EU's GSP is extensively known as the most dynamic in terms of coverage and benefits. The EU offers:

a. Standard GSP which is intended for low and lower-middle-income countries. This means a partial or full removal of customs duties on two-thirds of tariff lines. This GSP provides preferences to developing countries and territories over more than 6200 tariff lines.
b. GSP+, a special incentive arrangement in favour of sustainable development and good governance. It offers additional tariff reductions to assist vulnerable developing countries in their ratification and application of international agreements in these fields. It cuts the same tariffs to 0% for vulnerable low and lower-middle-income countries that apply 27 international conventions relevant to human rights, workers' rights, environmental protection, and good governance.
c. Everything But Arms, an arrangement aimed specifically for the least developed countries by granting them duty-free, quota-free access for all products except arms and ammunition.[52]

There are some conditions in which developing countries must meet in order to be automatically get a GSP, these conditions include:

[51]European Commission, "Generalised Scheme of Preferences (GSP)," accessed March 3, 2020. https://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/.
[52] European Commission, "Generalised Scheme of Preferences (GSP)."

a. The country must have an income level below "upper middle income" based on the World Bank's classification

b. It must not take advantage of other arrangements (such as Free Trade Agreements) that give them privileged access to the EU market.

In addition, if a country obtains GSP+, that country is required to ratify 27 international conventions and to cooperate with the Commission to supervise the utilisation of these conventions. The exception being countries that are considered the least-developed, as they will automatically benefit from the 'Everything But Arms' arrangement, despite having other arrangements. There are 15 core conventions on human rights and labour rights that must be respected by all GSP recipient countries.[53]

So far, Indonesia has received GSP from several countries including EU Member States, the United States, and Australia. As a developing country, Indonesia still gets the GSP facility from the EU. One of the GSP facilities includes relief of import duty rates. Initially, relations between Indonesia and the EU have been framed in the form of cooperation between regions by the European Commission Cooperation Agreement with ASEAN. This regional cooperation was formalised in 1980. On this basis, economic and political discussions have been held regularly. Bilateral dialogue between the EU and Indonesia has included periodic reviews of political, economic, and cooperation issues in the Senior Official Meeting.[54] Until 2007, negotiations for trade and investment agreements between the EU and ASEAN were launched. However, in 2009, the EU decided to open up opportunities for bilateral cooperation for each ASEAN member country.[55]

The World Bank Report in 2007 showed that ten years after the Asian economic crisis Southeast Asian and Northeast Asian countries had a stronger economic phase than before the crisis.[56] This period was when Indonesia and the EU decided to improve their bilateral economic relations by signing a Framework Agreement on Comprehensive Partnership and Cooperation Agreement (PCA) in November 2009. PCA was followed

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[53] Ibid.

[54] Association of Southeast Asian Nations, Cooperation Agreement between Member Countries of ASEAN and European Community Kuala Lumpur, 7 March 1980. Accessed March 12, 2020. Accessed March 6, 2020. https://asean.org/?static_post=external-relations-european-union-nuremberg-declaration-on-an-eu-asean-enhanced-partnership-nuremberg-germany-15-march-2007.

[55] European Commission, "Association of South East Asian Nations (ASEAN)," accessed March 7, 2020. https://ec.europa.eu/trade/policy/countries-and-regions/regions/asean/.

[56] The World Bank, "10 Years After the Crisis: Special Focus Sustainable Development in East Asia's Urban Fringe, 1. Accessed March 5, 2020. http://siteresources.worldbank.org/INTEAPHALFYEARLYUPDATE/Resources/550192-1175629375615/EAP-Update-April2007-fullreport.pdf.

by a joint study from 2010-2011 that produced a report of the EU-Indonesia Vision Group on Trade and Investment Relations. The report on 28 June 2011 recommended that the EU and Indonesia immediately begin negotiations towards the Comprehensive Economic Partnership Agreement (CEPA).[57]

Hence, the current relationship between Indonesia and the European Union, in general, is regulated in the Partnership and Cooperation Agreement which took effect in May 2014. Indonesia also still enjoys special treatment in the form of low tariffs for several products under the EU's GSP scheme. However, with Indonesia's economy grew, the GSP can be re-examined so it does not rule out the possibility of its facilities being revoked. This GSP facility will be removed if Indonesia improves its status from a lower-middle-income country.[58] Consequently, it is important for Indonesia to immediately negotiate a Comprehensive Economic Partnership Agreement with the European Union (I-EU CEPA).

CEPA is a broader economic cooperation scheme which is more than just a trade issue that includes market access, capacity building, and trade and investment facilitation. I-EU CEPA aims to reduce trade barriers and increase bilateral trade between Indonesia and the European Union including Visegrad countries. CEPA is different from the free trade area pact, which aims only to eliminate tariff barriers, as it covers a wider work area. CEPA is comprehensive because its scope extends beyond mere forms of trade relations, but also addresses issues of investment, economic assistance, technological cooperation, and renewable energy. This is the reason the Indonesian government prefers to negotiate a CEPA agreement whose scope is far wider, deeper as well as more comprehensive than the PCA.[59]

The main contribution related to the existence of CEPA will be felt through encouragement to increase trade between Indonesia and the European Union. The focus of the agreement on trade liberalisation will increase the intensity of trade relations by reducing trade barriers. Indonesia may feel the direct impact of increasing access to the European Union market including the V4 countries, which will become increasingly

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[57] Delegation of the European Union, "Invigorating The Indonesia-EU Partnership: Towards a Comprehensive Economic Partnership Agreement," accessed March 5, 2020. http://eeas.europa.eu/archives/delegations/indonesia/documents/press_corner/20110615_01_en.pdf.

[58] Yose Rizal Damuri, Raymond Atje, and Audrey Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia* (Jakarta: CSIS Pub, 2015), 31.

[59] Kemenkeu*, Laporan Hasil Kajian Free Trade Agreement (FTA) dan Economic Partnership Agreement (EPA), dan Pengaruhnya terhadap Arus Perdagangan dan Investasi dengan Negara Mitra Jilid 2*. (Jakarta: BKF Kemenkeu, 2013), 20.

important after the GSP tariff reform is carried out by the European Union. This means that Indonesia must move from this framework after achieving the status of a middle to upper income country.

One of the steps taken by the Indonesian government was to negotiate a framework for a Comprehensive Economic Partnership Agreement. In 2012, Indonesia and the European Union began to discuss scoping papers to determine the scope and depth of commitments to be negotiated by both parties. Interspersed with changes of government, both in Indonesia and in the European Union, to a vacuum for four years, Indonesia and the EU finally agreed to revive negotiations on the free trade pact (Free Trade Agreement). The FTA is included in the framework of the I-EU CEPA cooperation, where the discussion of the scoping paper was finally completed in April 2016 when Indonesian President Joko Widodo paid a visit to Brussels, Belgium.[60]

Both parties agreed to take advantage of this momentum to then accelerate the I-EU CEPA negotiation process. In July 2016, the two parties successfully launched a joint scoping paper. The initiative was formed based on the foreign policy pattern of both parties focusing on the development sector for Indonesia and the EU. Up to date, there has been a total of nine negotiation rounds. The first and ninth (latest) round of the negotiation were held in Brussels. The tenth (upcoming) round of negotiations was planned for March 2020 in Indonesia.[61] In addition, the benefits of this agreement are huge for both parties. Greater market access to EU member countries can improve Indonesia's export performance in the EU market (including V4). This will result from increased institutional competitiveness. Furthermore, because the two economies are seen as complementary, greater market access for EU products will also increase the competitiveness of Indonesian industries.

[60]Kementerian Keuangan Republik Indonesia, "Indonesia dan Uni Eropa Luncurkan IEU-CEPA," accessed March 1, 2020. https://www.kemenkeu.go.id/publikasi/berita/indonesia-dan-uni-eropa-luncurkan-ieu-cepa/.
[61]European Commission, "Countries and Regions: Indonesia."

Chapter III. Indonesia and the V4 Trade Pattern

This chapter will elucidate the pattern and intensity of trade between Indonesia and the V4. As follows, we will find out the structure and value of trade between the two entities. Thus, we will be able to answer the sub-questions. First, it conveys the trade profiles of each country for the general overview, then it shows the volume of trade between Indonesia and the V4 by displaying the trends in the past (2008-2018). Then, it is followed by the trade structure of Indonesia and the V4 countries, trade partner's composition, and finally, their participation in the global value chain.

Table 3.1. Countries' Trade Profiles

Country	Trade Profiles						
	Population (millions, 2018)*	GDP (million current USD, 2018)**	GDP per capita (USD, 2016-2018)**	Current account balance (% GDP, 2018)**	Trade per capita (USD, 2016-2018)**	Trade (% GDP, 2016-2018)**	Trade openness (as % of GDP, 2018)***
Indonesia	264.16	1,022,454	3,788	-3.0	719	19.0	40
Czechia	10.61	242,052	20,584	0.2	15,600	75.8	150
Hungary	9.77	155,703	14,333	0.5	12,084	84.3	150
Poland	37.97	524,886	12,931	-0.7	7,246	50.3	100
Slovakia	5.44	106,585	17,927	-2.0	16,790	93.7	190

Source: *IMF (https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/index.aspx),
**WTO (https://www.wto.org/english/res_e/statis_e/trade_profiles_list_e.htm),
***UNCTADSTAT (https://unctadstat.unctad.org/countryprofile/generalprofile/en-gb/360/index.html), accessed April 19, 2020.

Given the data (see table 3.1.), it gives us the current profile of each country. It illustrates the huge difference between the size and proportion of each country in terms of its total population. In comparison to V4, Indonesian has a bigger market size, thus, it makes it more appealing to be a promising market for V4. Conversely, compared to Indonesia, the V4 countries have higher GDP per capita, trade per capita, trade as the percentage of GDP, and trade openness. In 2018, Indonesian, Polish, and Slovakia's current account balance experienced a deficit which reached -3.0, -0.7, and -2.0 respectively. On the contrary, Czechia and Hungary experienced a surplus in their current account balance which accounted for 0.2 and 0.5 respectively.

3.1. The Volume of Trade Between the V4 and Indonesia

In this part, the overall trade turnover of each V4 countries and Indonesia will be discussed. This will give us an overview of the mutual trade condition between the V4 and Indonesia with their trade partners. Moreover, this part will disclose the trend of the value of their mutual trade turnover in the past ten years.

3.1.1. Indonesian Trade Volume with the World

Indonesia as a member of the WTO has the exclusive rights to develop and implement its trade policy in an open economic system. Meanwhile, Indonesia must comply with the whole multilateral trade cooperation within the WTO. Additionally, Indonesia as a founding member of the ASEAN also brings advantages with its bargaining position in the global trade chain. Accordingly, the trade openness, which is a sum of imports and exports as a percentage of the GDP, contributed roughly around 40% of Indonesia's total GDP in 2018.[62] In comparison to Czechia, Hungary, Poland, and Slovakia, the trade openness is around 150%, 150%, 100%, and 190% respectively (see table 3.1.). This trade openness is measured as the ratio between the average of exports and imports of goods to GDP. The lower percentage of trade openness shows a higher level of protection of Indonesia.

On the other hand, the economic freedom index in 2020 gives a different evaluation of economic freedom. This economic freedom index covers 12 freedoms of areas such as property rights, judicial effectiveness, government integrity, tax burden, government spending, fiscal health, business freedom, labour freedom, monetary freedom, trade freedom, investment freedom, and financial freedom. The overall score is measured by averaging those 12 economic freedoms, with equal weight being given to each of them. Based on the overall scores, Czechia is considered mostly free with the economic freedom index score of 23/190. Whereas, Poland, Indonesia, Slovakia, and Hungary are considered moderately free. Their economic freedom scores are 46/190, 54/190, 60/190, and 62/190 respectively.[63]

In 2018, the main trade partners for Indonesia in exports included China 15.1%, Japan 10.8%, United States 10.3%, India 7.6%, and the EU 9.5%. Whereas, the main trade partners for Indonesia in imports included China 24.1%, Singapore 11.3%, Japan 9.5%, the EU 7.5%, and Thailand 5.8%.[64] Here, we can see that the EU plays an important role in trade of Indonesia both in export and import.

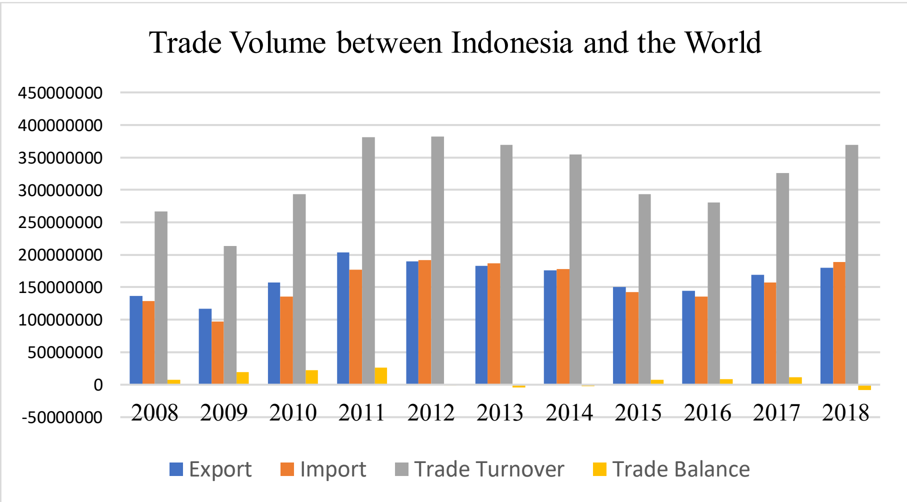
Currently, there are several FTAs involving Indonesia both in bilateral and regional frameworks namely Indonesia-Japan EPA, Indonesia-Australia CEPA, Indonesia-South

[62] UNCTADSTAT, "Country Profiles: Indonesia," accessed April 15, 2020. https://unctadstat.unctad.org/countryprofile/generalprofile/en-gb/360/index.html.
[63] The Heritage Foundation, "2020 Index of Economic Freedom: Country Rankings," accessed May 8, 2020. https://www.heritage.org/index/ranking.
[64] WTO, "Trade Profiles: Indonesia," accessed April 14, 2020. https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/ID_e.pdf.

Korea CEPA, ASEAN-China FTA, ASEAN-FTA, ASEAN-Korea, ASEAN-India, and ASEAN-Australia-New Zealand. The CEPA is seen as truly important for Indonesia to be able to gain greater market access and to increase its mutual trade turnover. On the other hand, the EU is trying to negotiate other trade agreements with other trade partners which are seen as Indonesian competitors in the V4. Currently, there is an FTA between EU and Vietnam under adoption and ratification, between the EU and China that is being negotiated, between the EU and Malaysia that is put on hold, between the EU and Thailand that is put on hold, and between the EU and the Philippines that is being negotiated.[65]

One important aspect to consider from the export and import data is the current account balance position. The current account balance is the value of exports minus the value of imports. The results can show the direct contribution of trade activities to national income. Based on Chart 3.1., we can clearly see the current account balance contributed positively to Indonesia's GDP due to Indonesia's export performance that showed an upward trend from 2008 to 2011. The peak occurred in 2011 when the value of Indonesia's exports reached 203.5 billion US dollars and Indonesia gained the largest surplus with a value of 26 billion US dollars. Since then, the value of Indonesia's exports has continued to decline.

Chart 3.2. Trade Volume between Indonesia and the World in USD thousand (current prices) in 2008-2018



Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

From 2008 to 2018, Indonesia's current account balance showed a negative value or what is commonly called a trade deficit or current account deficit. This deficit occurred

[65]European Commission, "Negotiations and agreements," accessed Oct 28, 2019. https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/#_on-hold.

both in the trade of goods and services for three years in a row, namely 2012 to 2014 and then later occurred again in 2018. In 2012, the current account balance deficit reached 1.65 billion US dollars. This current account deficit increased to 2.14 billion US dollars in 2014. In 2012, the current account balance gave a negative contribution of -0.19 percent of GDP and caused economic growth to decline to 6.03 percent from 6.17 percent in 2011. Up to two years later, economic growth was still slowing down. In 2013, the current account balance contributed 0.52 percent negatively to GDP and affected economic growth which fell to 5.58 percent. Similarly, in 2014, where the current account balance contributed -0.26 percent and economic growth still weakened to 5.02 percent. The current account balance deficit was caused by a decrease in the value of exports of several main commodities such as oil and gas commodities. Additionally, this was also caused by the surge in import values, especially for consumer goods and raw materials and capital goods.

Indonesia only recorded a trade surplus again in 2015. In 2017, Indonesia's current account balance experienced the largest surplus since 2012. The current account balance surplus reached 11.8 billion US dollars. Similarly, after the import value reached its peak in 2012 amounting to 191.69 billion US dollars, the value of Indonesian imports then experienced a downward trend. Then total imports continued to experience an upward trend from 2016 to reach the second peak in 2018 with a total of 188.71 billion US dollars. Likewise, total exports also increased until 2018, the value of Indonesia's exports reached 180.21 billion US dollars. Hence, the current account balance also increased again from 2015 to 2017.

In 2018, the trade deficit reached 8.57 billion US dollars. The deficit in 2018 was caused by the oil and gas sector which experienced a deficit of 12.40 billion US dollars. This deficit was the worst oil and gas deficit since 2014. The high value of the oil and gas deficit was due to the increase in oil prices in 2018, the average price of West Texas Intermediate annual oil increased by 27.6% in 2017. In addition, the price of palm oil commodities as one of the contributors to non-oil exports fell by 16.23% in 2018.[66]

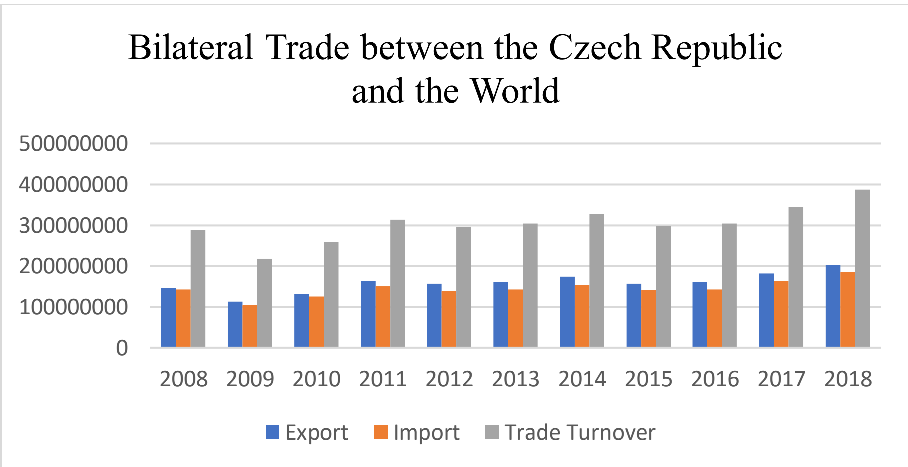
[66]FAC Sekuritas, "Defisit Dagang RI 2018 Terparah Sepanjang Sejarah," accessed March 16, 2020. http://www.firstasiasekuritas.com/news-6410-defisit-dagang-ri-2018-terparah-sepanjang-sejarah.

3.1.2. V4 Trade Volume with the World

In this part, the overall trade turnover of each V4 countries will be elaborated. It will give us an overview of the bilateral trade condition between the V4 and their trade partners between 2008 and 2018. Thus, we can see the trend of the value of turnover between the V4 and their trade partners in the past ten years.

During the last ten years, from 2008 to 2018, the value of Czech's exports always exceeded its imports and caused a surplus in the current account in the balance of payments. In 2018, Czech exports and imports reached its peak of 202 million USD and 184 million USD respectively. In the same year, the total Czech trade reached its peak of 387 million USD. From 2015 to 2018, the Czech trade trend has increased (see Chart 3.2.).

Chart 3.2. Bilateral Trade between Czech Republic and the World in USD thousand (current prices) in 2008-2018



Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

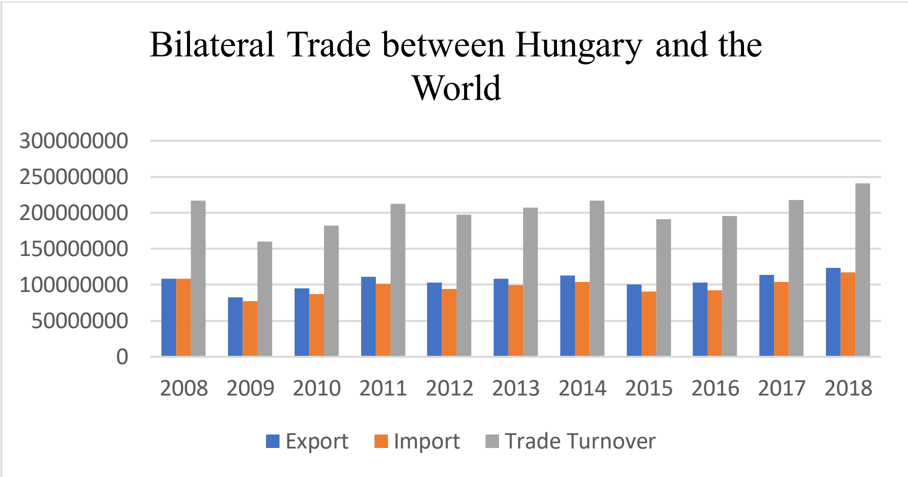
In 2017 the Czech Republic exported 164 billion USD, making it the 28th largest exporter in the world. During the last five years, the exporters of the Czech Republic have increased at an annualised rate of 2.8%, from 143 billion USD in 2012 to 164 billion USD in 2017. In 2017, the Czech Republic imported 160 billion USD, making it the 28th largest importer in the world. During the last five years, the imports of the Czech Republic have increased at an annualised rate of 3.1%, from 137 billion USD in 2012 to 160 billion USD in 2017.[67]

Similarly, with the Czech Republic, during the period after 2008 which had a very small difference between the value of exports that were below the number of imports,

[67]The Observatory of Economic Complexity, "Country Profile: Czech Republic," accessed March 10, 2020 https://oec.world/en/profile/country/cze/.

from 2009 to 2018, the value of Hungarian exports always exceeded its imports and caused a surplus in the current account balance. In 2018, Hungary's total exports and imports peaked at 123 million USD and 117 million USD respectively. In the same year, Hungary's total trade peaked in a ten-year period of 241 million USD. From 2015 to 2018 the Hungarian trade trend has increased (see Chart 3.3.).

Chart 3.3. Bilateral Trade between Hungary and the World in USD thousand (current prices) in 2008-2018



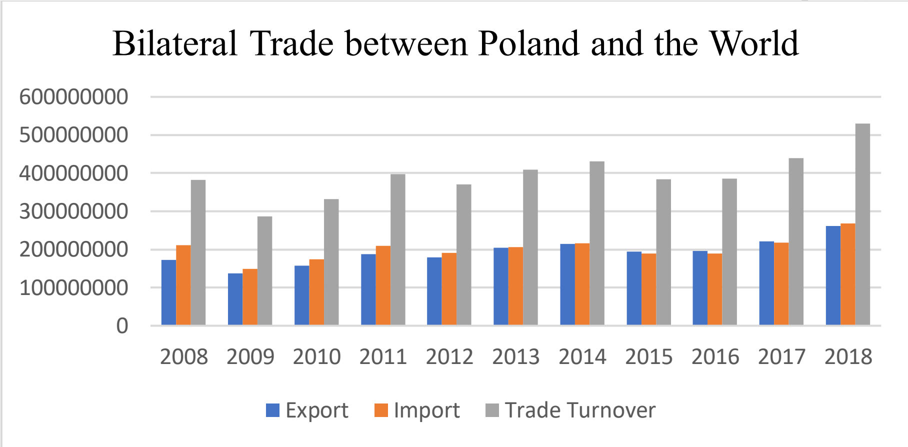
Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

In 2017, Hungary exported 107 billion USD, making it the 35th largest exporter in the world. Over the past five years, Hungarian exports have increased at an annual rate of 2.9%, from 93.3 billion USD in 2012 to 107 billion USD in 2017. In 2017 Hungary imported 97.1 billion USD, making it the 33rd largest importer in the world. Over the past five years, Hungarian imports have increased at an annual rate of 2.5%, from 86 billion USD in 2012 to 97.1 billion USD in 2017.[68]

During the period of 2008 to 2018, the Polish trade trend was in an increase. But if we look at the year to year, both total exports and imports are quite volatile. From 2016 to 2018, Poland's total exports and imports continued to increase until it reached a peak in 2018 of 261 million USD and 267 million USD respectively. In the same year, Poland's total trade peaked in a ten-year period of 529 million USD (see Chart 3.4.).

[68]The Observatory of Economic Complexity, "Country Profile: Hungary," accessed March 10, 2020 https://oec.world/en/profile/country/hun/.

Chart 3.4. Bilateral Trade between Poland and the World in USD thousand (current prices) in 2008-2018



Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

In 2017, Poland exported goods and services worth 212 billion USD, making it the 24th largest exporter in the world. Over the past five years, Polish exports have increased at an annual rate of 4.1%, from 173 billion USD in 2012 to 212 billion USD in 2017. In 2017, Poland imported 223 billion USD, making it the 18th largest importer in the world. Over the past five years, the Polish imports have increased at an annual rate of 3.1%, from 191 billion USD in 2012 to 223 billion USD in 2017.[69]

Similarly, during the period of 2008 to 2018, the Slovak trade trend was in an increase. But if we look at the year to year, both total exports and imports are quite volatile. From 2016 to 2018, Slovakia's total exports and imports continued to increase until it reached a peak in 2018 of 94.2 million USD and 94.1 million USD respectively. In the same year, the total Slovak trade peaked in a ten-year period of 188 million USD (see Chart 3.5.).

Chart 3.5. Bilateral Trade between Slovakia and the World in USD thousand (current prices) in 2008-2018

[69]The Observatory of Economic Complexity, "Country Profile: Poland," accessed March 10, 2020. https://oec.world/en/profile/country/pol/.

Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

In 2017, Slovakia exported goods and services worth 77.5 billion USD, making it the 39th largest exporter in the world. Over the past five years, Slovak exports have increased at an annual rate of 1.4%, from 72.3 billion USD in 2012 to 77.5 billion USD in 2017. In 2017 Slovakia imported 78 billion USD, making it the 41st largest importer in the world. Over the past five years, Slovak imports increased at an annual rate of 1.7%, from 81.1 billion USD in 2012 to 78 billion USD in 2017.[70]

Furthermore, a country's foreign trade activities are an indicator of its role in the international world. These Charts illustrate their position in world trade, both as a supplier and market for other countries. In addition, the increase in the value of trade is also an indication of the growth of their economy. Each country will compete to increase the value of their current account balance. The movement of the current account balance will have an effect on the exchange rate which will further affect the performance of the industry. Accordingly, besides consumption, investment, and government spending, the current account balance is a component that affects the country's Gross Domestic Product (GDP) in terms of expenditure. Thus, it will affect economic growth.[71]

3.1.3. Volume of Trade Between Indonesia and V4

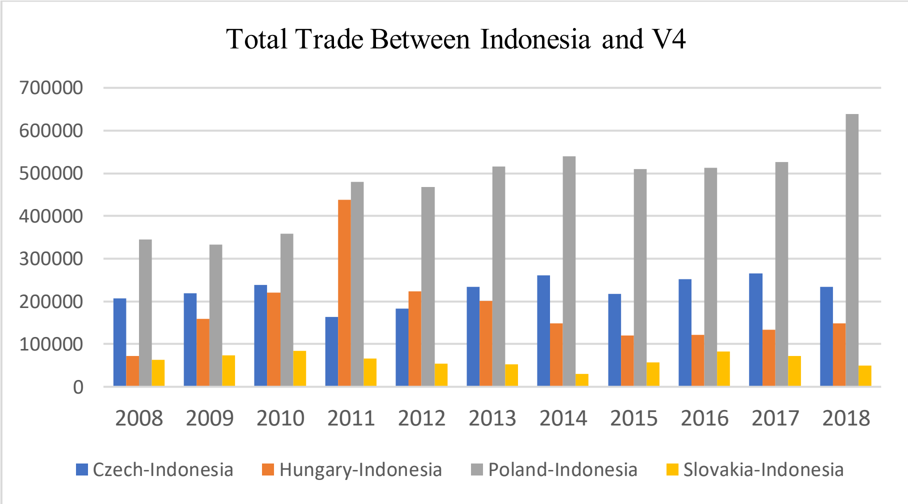
In this part, the overall trade turnover of Indonesia and the V4 will be further discussed. It will show us the bilateral trade condition between Indonesia and the V4 between 2008 and 2018. Thus, we can see the mutual trade turnover for the trend in the past ten years.

Based on Chart 3.6., within ten years the total volume of trade between Indonesia and Poland continued to increase and reached its peak in 2018 of 639,367 USD. The value of turnover between Indonesia and the Czech Republic was quite stable although it had experienced a decline in 2010 but again experienced an increase in 2012 to reach its peak in 2017 amounting to 265,500 USD. The value of turnover between Indonesia and Slovakia continued to decrease since 2008 when it amounted to 63,267 USD to reach 29,912 USD in 2014.

[70]The Observatory of Economic Complexity, "Country Profile: Slovakia," accessed March 10, 2020. https://oec.world/en/profile/country/svk/.

[71] Dewan Perwakilan Rakyat Republik Indonesia, "Analisis Struktur dan Perkembangan Neraca Pembayaran Indonesia (NPI)," accessed March 15, 2020. http://www.dpr.go.id/doksetjen/dokumen/apbn_ANALISIS_STRUKTUR_DAN_PERKEMBANGAN_NERACA_PEMBAYARAN_INDONESIA_(NPI)20140821142110.pdf.

Chart 3.6. Total Trade between V4 and Indonesia in USD thousand (current prices) in 2008-2018

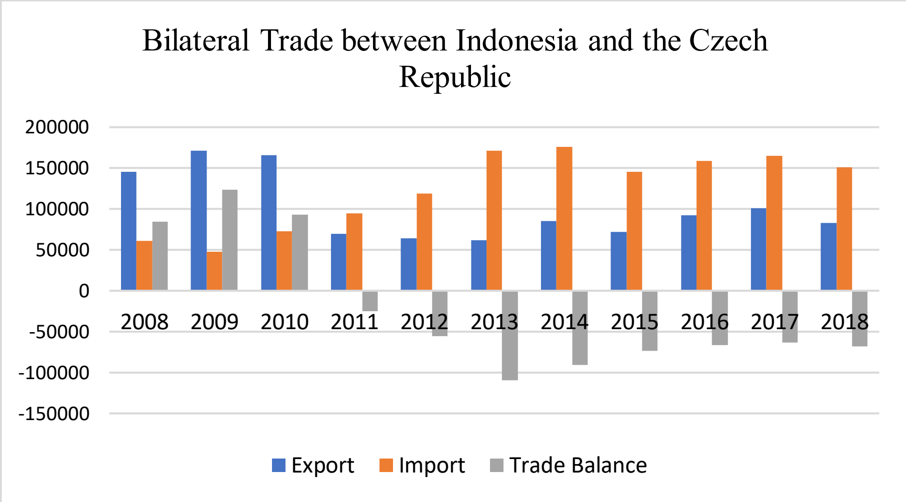


Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

Although it had increased to 82,795 USD in 2016, it again decreased until 2018 amounting to 49,756 USD. The value of turnover between Indonesia and Hungary was very volatile. After experiencing a sharp increase between 2008 and 2011 reaching a peak of 438,399 USD, the trade turnover between the two continued to decrease dramatically until 2015 reaching 120,571 USD. Then again it experienced an increase until 2018 reaching 148,363 USD.

In the period of ten years, from 2008 to 2018, the current account balance between Indonesia and the Czech Republic continued to decline (see Chart 3.7.). In 2009, the current account balance between Indonesia and the Czech Republic reached its peak point as far as surplus amounting to 123,569 USD with a total export of 171,357 USD, the current account balance continued to decline until it experienced a deficit in 2011 with a total of around -24,881 USD, due to the amount of exports which declined sharply from 165,736 USD in 2010 to 69,420 USD in 2011. In 2013, Indonesia's total deficit peaked at -109,601 USD. Czech exports to Indonesia have developed relatively well in recent years. In 2014, export reached the highest volume so far, namely 175.58 million USD. It was the best result in the history of the independent Czech Republic. In 2016, the volume was 158,91 million USD. In 2017, there was a statistically significant decline, which, nonetheless, correlates with the overall decline in EU exports to the country.

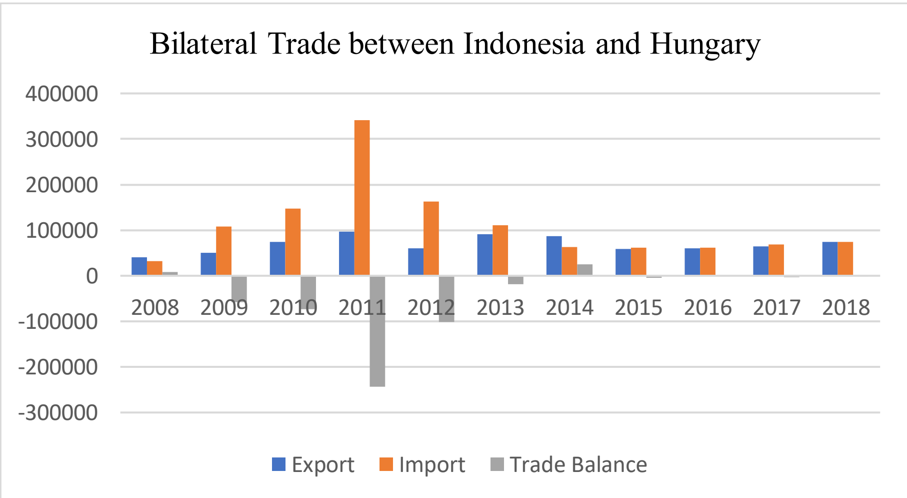
Chart 3.7. Bilateral Trade between Indonesia and Czech Republic in USD thousand (current prices) in 2008-2018



Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

In 2013, the total deficit reached its peak. The deficit in the current account balance of Indonesia has continued to decline until 2018, reaching -67,866 USD. Although Indonesia is the largest country in the region, in terms of trade, in terms of the Czech Republic is from the ASEAN countries, it is 5th place. Accordingly, it is also related to the fact that in many cases the origin of Czech goods to Indonesia is re-exported and thus, does not appear in bilateral statistics. Typically, goods enter the country through Singapore, which is the country's business and financial hub.[72]

Chart 3.8. Bilateral Trade between Indonesia and Hungary in USD thousand (current prices) in 2008-2018

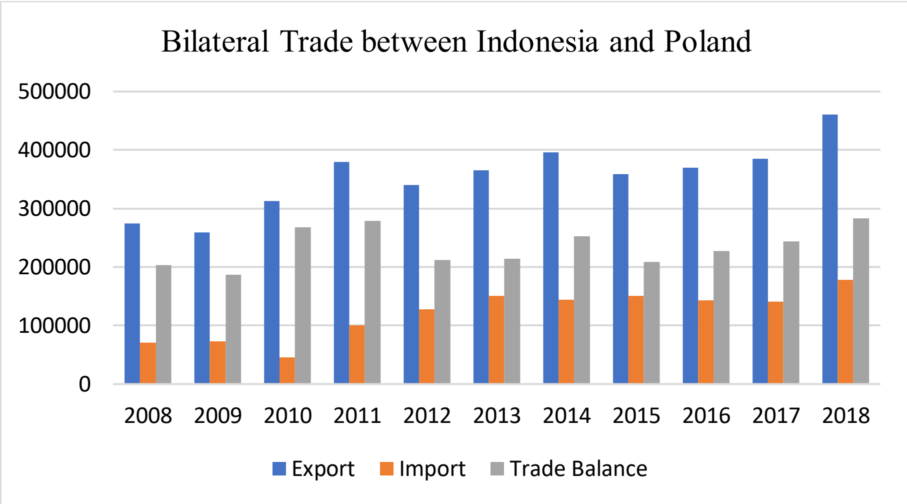


Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

[72] BusinessInfo.cz, "Indonésie: Obchodní a ekonomická spolupráce s ČR," accessed March 29, 2020. https://www.businessinfo.cz/navody/indonesie-obchodni-a-ekonomicka-spoluprace-s-cr/.

Chart 3.8. shows the current account balance between Indonesia and Hungary continued to decline and experienced a deficit since 2008 and reached a peak of -243,945 USD in 2011. This was due to a sharp increase in imports from 146,916 in 2010 to 341,172 USD in 2011. After experiencing a surplus in the year 2014, the current account balance between Indonesia and Hungary again experienced a deficit, but was not too high when compared to the period of 2009 to 2012 which was only around -983 USD in 2018.

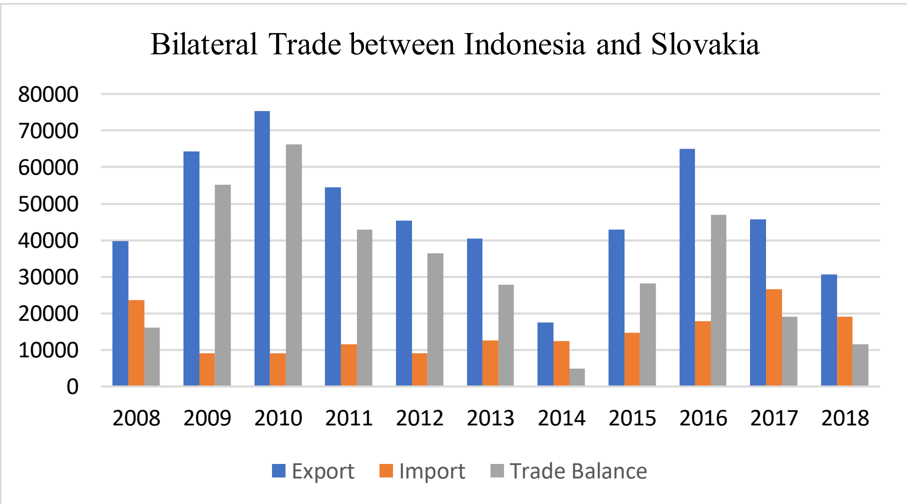
Chart 3.9. Bilateral Trade between Indonesia and Poland in USD thousand (current prices) in 2008-2018



Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

The current account balance between Indonesia and Poland in the period of ten years between 2008 and 2018 continues to experience a surplus. This is due to the large number of exports compared to imports, which in 2018 reached a peak of around 461,072 USD for exports and 178,295 for imports (see Chart 3.9.).

Chart 3.10. Bilateral Trade between Indonesia and Slovakia in USD thousand (current prices) in 2008-2018



Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

Similarly, Chart 3.10. illustrates the current account balance between Indonesia and Slovakia, which also continues to experience a surplus in the period of ten years from 2008 to 2018. This was due to the large amount of exports compared to imports, which in 2010 reached a peak of around 75.368 USD for exports and 9,118 USD for imports. In 2010, the highest surplus amount experienced by Indonesia was 66,250 USD. However, in comparison to the volume of trade between Indonesia and other V4 countries, the volume of trade between Indonesia and Slovakia was very low.

3.2. Trade Structure (Goods/Merchandise)

Trade structure means a study of the goods and services which are traded both as imports and exports of a country. In other words, it tells about the commodities of imports and the commodities of exports of a country. Developed countries tend to export more secondary goods (manufactured) than raw materials (primary). Conversely, developing countries rely more on raw materials and agriculture products than manufactured goods that have higher added value. Therefore, the structure of trade indicates the position of a country in the international division of labour and thus its level of economic development.

3.2.1. Indonesia

This part will convey the trade structure of Indonesia. Thus, we can have an overview of Indonesia's position in the international division of labour and its level of economic development.

Chart 3.11. Structure of Merchandise Trade (exports)in 2017

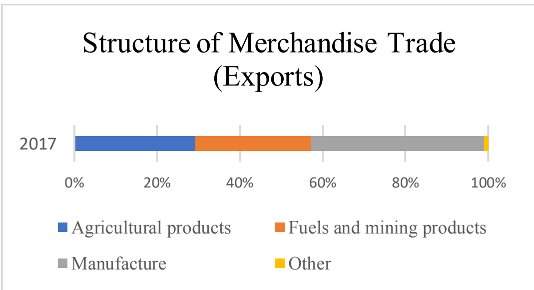
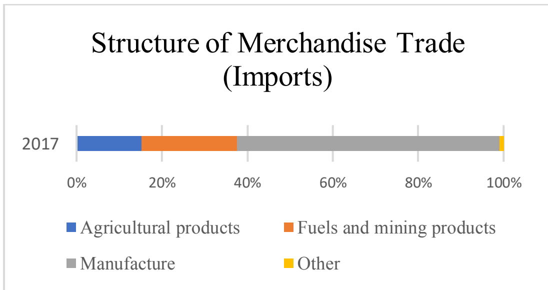


Chart 3.12. Structure of Merchandise Trade (imports) in 2017



Source: WTO (https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/ID_e.pdf), accessed Dec 2, 2019.

Indonesian merchandise exports to its partners are dominated by manufacturing around 41.9% and are relatively balanced with a proportion of agricultural products around 29.2% with fuels and mining products around 27.8% and 1% for other products (Chart 3.11.). Indonesian merchandise imports to its partners are dominated by manufacturing around 61.4%, followed by fuels and mining products around 22.4% and agricultural products around 15.1% and 1% for other products (see Chart 3.12.).

Table 3.2. Indonesia's Trade Composition in 2017

No.	Indonesia's Trade Composition			
	Export Commodities	**Value**	**Import Commodities**	**Value**
1.	Coal Briquettes (10%)	18.9 billion USD	Refined Petroleum (9.2%)	14.2 billion USD
2.	Palm oil (9.6%)	18.2 billion USD	Crude Petroleum (4.8%)	7.44 billion USD
3.	Petroleum gas (4.8%)	8.99 billion USD	Telephones (2.0%)	3.13 billion USD
4.	Rubber (3.0%)	5.68 billion USD	Vehicle Parts (2.0%)	3.01 billion USD
5.	Crude Petroleum (2.8%)	5.34 billion USD	Petroleum gas (1.8%)	2.71 billion USD
6.	Stearic Acid (1.8%)	3.44 billion USD	Wheat (1.7%)	2.6 billion USD
7.	Cars (1.8%)	3.34 billion USD	Semi-Finished Iron (1.3%)	1.99 billion USD
8.	Copper Ore (1.7%)	3.17 billion USD	Raw Sugar (1.3%)	1.97 billion USD
9.	Coconut Oil (1.7%)	3.12 billion USD	Integrated Circuits (1.2%)	1.9 billion USD
10.	Lignite (1.6%)	3.03 billion USD	Computers (1.1%)	1.66 billion USD

Source: The Observatory of Economic Complexity (https://oec.world/en/profile/country/idn/), accessed March 20, 2020.

The latest exports were led by coal briquettes representing 10% of Indonesia's total exports, followed by palm oil, which accounted for 9.6% (see table 3.2.). The latest imports were led by refined petroleum which represented 9.2% of Indonesia's total imports, followed by crude petroleum, which accounted for 4.8%.

3.2.2. Czech Republic

This part will convey the trade structure of the Czech Republic. Thus, we can have an overview of the Czech Republic's position in the international division of labour and its level of economic development.

Chart 3.13. Structure of Merchandise Trade (exports) in 2017

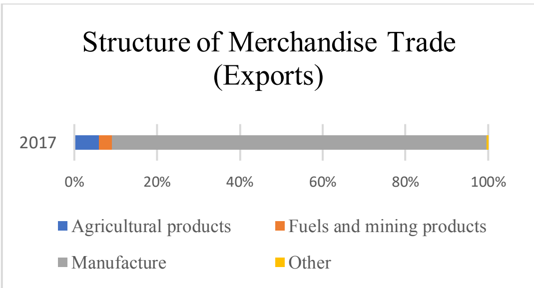
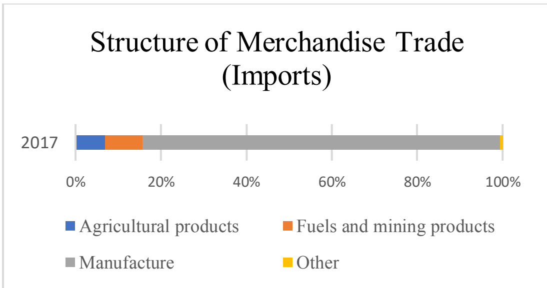


Chart 3.14. Structure of Merchandise Trade (imports) in 2017



Source: WTO (https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/CZ_e.pdf), accessed Dec 2, 2019.

Czech merchandise exports to its partners are dominated by manufacturing around 90%, agricultural products around 5.9%, fuel and mining products around 3.3%, and 0.4% for other products (see Chart 3.13.). Czech merchandise imports from its partners are also dominated by manufacturing around 83.8%, followed by fuel and mining products around 8.6%, agricultural products around 7%, and 0.6% for other products (see Chart 3.14.).

Table 3.3. Czech's Trade Composition (in USD current price) in 2017

No.	Czech's Trade Composition			
	Export Commodities	**Value**	**Import Commodities**	**Value**
1.	Cars (12%)	20.5 billion USD	Vehicle Parts (6.1%)	9.71 billion USD
2.	Vehicle (8.4%)	13.8 billion USD	Office Machine Parts (3.9%)	6.27 billion USD
3.	Computers (4.2%)	6.97 billion USD	Broadcasting Equipment (3.8%)	6.07 billion USD
4.	Broadcasting Equipment (2.2%)	3.62 billion USD	Cars (2.9%)	4.62 billion USD
5.	Office Machine Parts (2.0%)	3.32 billion USD	Computers (2.8%)	4.56 billion USD
6.	Seats (1.7%)	2.76 billion USD	Packaged Medicaments (2.3%)	3.6 billion USD
7.	Insulated Wire (1.6%)	2.56 billion USD	Integrated circuits (2.0%)	3.25 billion USD
8.	Low-Voltage Protection Equipment (1.5%)	2.39 billion USD	Crude Petroleum (1.7%)	2.72 billion USD
9.	Liquid Pumps (1.4%)	2.27 billion USD	Insulated Wire (1.6%)	2.62 billion USD
10.	Electrical Lighting and Signalling Equipment (1.3%)	2.18 billion USD	Seats (1.3%)	2.15 billion USD

Source: The Observatory of Economic Complexity (https://oec.world/en/profile/country/cze/), accessed March 20, 2020.

The latest available data concerning exports are led by cars that represent 12% of the total exports of the Czech Republic, followed by vehicle parts, that account for 8.4%. The most recent imports are led by vehicle parts that represent 6.1% of the total imports of the Czech Republic, followed by office machine parts that account for 3.9% (see table 3.3.).

Table 3.4. Indonesia and Czech's Trade Composition (in USD current price) in 2017

No.	Indonesia and Czech's Trade Composition			
	Export Commodities	**Value**	**Import Commodities**	**Value**
1.	Hair trimmers (11%)	40.2 million USD	Dissolving Grades Chemical Wood Pulp (23%)	32 million USD
2.	Rubber (9.1%)	32.4 million USD	Amine Compounds (5.5%)	7.68 million USD
3.	Textile Footwear (6.1%)	21.7 million USD	Planes, Helicopters, and/or Spacecraft (3.8%)	5.27 million USD
4.	Models and stuffed animals (5.5%)	19.7 million USD	Light Fixtures (3.6%)	5 million USD
5.	Electric Motors (4.8%)	17 million USD	Low-voltage Protection Equipment (3.0%)	5.63 million USD
6.	Leather Footwear (4.0%)	14.3 million USD	Plastic Pipes (2.6%)	3.58 million USD
7.	Office Machine Parts (3.3%)	11.5 million USD	Centrifuges (2.4%)	3.37 million USD
8.	Trunks and Cases (2.8%)	9.86 million USD	Breathing Appliances (2.3%)	3.14 million USD
9.	Rubber Footwear (2.5%)	8.7 million USD	Spring, Air, and Gas Guns (2.2%)	3.07 million USD

10.	Air Pumps (2.4%)	8.54 million USD	Broadcasting Equipment (2.0%)	2.76 million USD

Source: The Observatory of Economic Complexity (https://oec.world/en/visualize/tree_map/hs92/import/idn/cze/show/2017/), accessed March 20, 2020.

The data on Indonesia's export commodities to the Czech Republic in 2017 (see table 3.4.) shows hair trimmers, rubber, and textile footwear are among the main export commodities followed by models and stuffed animals and electric motors. However, if we disaggregate the data, in 2018, Indonesia's exports to the Czech Republic were still dominated by coconut and cashew commodities with a volume of 102 tons and a value of 333.9 thousand USD.

Accordingly, there are some opportunities for Indonesian products in the Czech Republic's market. Many business actors in the Czech Republic expressed their interest in Indonesian products such as sugar, dried fruit, cocoa powder, spices, coffee, cable products, mineral products, cosmetics, fast food noodles, coffee, batik, and tourism.[73] For instance, coffee as one of the products can be a commodity that has a bigger opportunity. In 2018, the market share of coffee in the Czech Republic was dominated by Vietnamese coffee. The value of coffee in the Czech Republic originating from Vietnam reached an import value of 4.1 million USD. Accordingly, based on the Revealed Comparative Advantage (RCA) index used to measure the relative gains and losses of certain commodities in a country that is reflected in its trade patterns, it is found that Indonesian coffee has an average RCA index value of 3.95. In comparison to the average index of coffee from Vietnam and Colombia, they are 20.52 and 30.96 respectively. [74] If the RCA value is more than one, it means that the country has a comparative advantage above the world average so that the commodity has strong competitiveness. Thus, although Indonesia has a lower index score compared to its competitors, this shows that the Indonesian coffee commodity has strong competitiveness.

Furthermore, coffee from Indonesia has advantages such as a variety of flavours and aromas of Indonesian coffee that are different from each region. All of them have things in common such as high quality, rich aroma, and perfect taste. Importers/distributors can find specialty coffee from each region made from selected coffee beans. The most popular premium coffee varieties in the world include Aceh Gayo,

[73]CNN Indonesia, "Menilik Peluang Ekspor Kopi Indonesia ke Republik Ceko," accessed March 20, 2020 https://www.cnnindonesia.com/internasional/20190828195036-299-425496/menilik-peluang-ekspor-kopi-indonesia-ke-republik-ceko.
[74] Ahmad Syariful Jamil, "Daya Saing Perdagangan Kopi Indonesia di Pasar Global." Agriekonomika 8, no. 1 (2019): 26–35. https://journal.trunojoyo.ac.id/agriekonomika/article/view/4924/3535.

Sumatra Lintong, and Luwak, which are very popular in Western Europe. Other specialties that are also in demand in Europe are Arabica specialties from Bali and Java, which have a history of nearly 300 years of coffee. This makes this commodity has a future for market share in the Eastern and Central European regions.[75]

Whereas, Indonesia's imports from the Czech Republic in 2017 are represented by dissolving grades of chemical wood pulp, amine compounds, planes, helicopters, and/or spacecraft, light fixtures, and low-voltage protection equipment.

3.2.3. Hungary

This part will convey the trade structure of Hungary. Thus, we can have an overview of Hungary's position in the international division of labour and its level of economic development.

Chart 3.15. Structure of Merchandise Trade (exports) in 2017

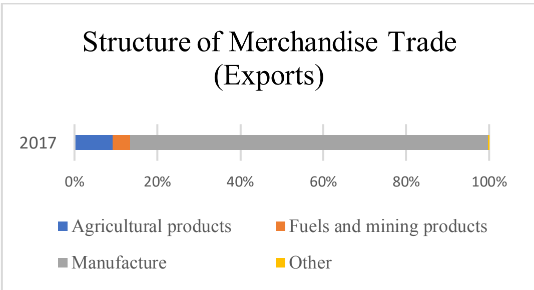
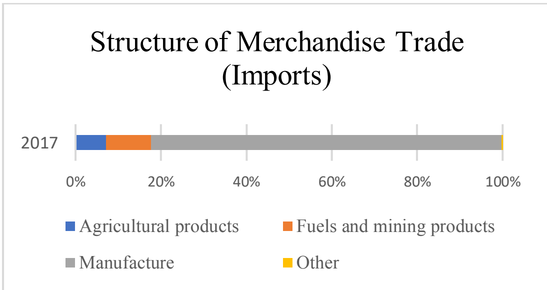


Chart 3.16. Structure of Merchandise Trade (imports) in 2017



Source: WTO (https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/HU_e.pdf), accessed Dec 2, 2019.

Hungarian merchandise exports to its partners are heavily dominated by manufacturing around 86.2%, agricultural products around 9.1%, fuel and mining products around 4.4%, and 0.3% for other products. Hungarian merchandise imports from its partners are also dominated by manufacturing around 82%, followed by fuel and mining products around 10.7%, agricultural products around 7.1%, and 0.3% for other products.

Table 3.5. Hungary's Trade Composition (in USD current price) in 2017

No.	Hungary's Trade Composition			
	Export Commodities	**Value**	**Import Commodities**	**Value**
1.	Cars (10%)	11 billion USD	Vehicle Parts (5.2%)	5.02 billion USD
2.	Vehicle Parts (6.0%)	6.44 billion USD	Cars (3.5%)	3.42 billion USD
3.	Spark-Ignition Engines (3.4%)	3.63 billion USD	Packaged Medicaments (2.8%)	2.72 billion USD

[75] Direktorat Jenderal Pengembangan Ekspor Nasional, "Pasar Tujuan Ekspor," accessed March 22, 2020 http://djpen.kemendag.go.id/petapasar/pages/informasiproduk/slovakia-1564741094/10.

4.	Packaged Medicaments (3.1%)	3.32 billion USD	Integrated circuits (2.7%)	2.66 billion USD
5.	Video Displays (2.6%)	2.83 billion USD	Engine Parts (2.3%)	2.28 billion USD
6.	Combustion Engines (2.1%)	2.24 billion USD	Office Machine Parts (2.1%)	2.03 billion USD
7.	Computers (2.0%)	2.13 billion USD	Crude Petroleum (2.1%)	2 billion USD
8.	Insulated Wire (1.8%)	1.94 billion USD	Petroleum Gas (2.0%)	1.97 billion USD
9.	Broadcasting Equipment (1.6%)	1.72 billion USD	Broadcasting Equipment (1.8%)	1.78 billion USD
10.	Electrical Control Boards (1.6%)	1.69 billion USD	Insulated Wire (1.7%)	1.7 billion USD

Source: The Observatory of Economic Complexity (https://oec.world/en/profile/country/hun/), accessed March 20, 2020.

The latest available data concerning exports were led by cars which represented 10% of Hungary's total exports, followed by vehicle parts, which accounted for 6.0%. The latest imports were led by vehicle parts which represented 5.2% of Hungary's total imports, followed by cars, which accounted for 3.5% (see table 3.5.).

Table 3.6. Indonesia and Hungary's Trade Composition (in USD current price) in 2017

No.	Indonesia and Hungary's Trade Composition			
	Export Commodities	**Value**	**Import Commodities**	**Value**
1.	Rubber (33%)	47.1 million USD	Machinery Having Individual Functions (9.6%)	6.17 million USD
2.	Electric Heaters (17%)	17.56 million USD	Gas Turbines (9.0%)	5.75 million USD
3.	Computers (7.3%)	10.4 million USD	Aircraft Parts (7.1%)	4.55 million USD
4.	Oxygen Amino Compounds (4.4%)	6.29 million USD	Oscilloscopes (6.7%)	4.31 million USD
5.	Facial Tissue (4.0%)	5.73 million USD	Electrical Ignitions (4.2%)	2.72 million USD
6.	Microphones and Headphones (3.5%)	4.98 million USD	Electrical Power Accessories (3.2%)	2.05 million USD
7.	Hair Trimmers (3.3%)	4.69 million USD	Other Office Machines (2.7%)	1.73 million USD
8.	Office Machine Parts (3.0%)	4.22 million USD	Sawn Wood (2.7%)	1.71 million USD
9.	Other Electrical Machinery (2.1%)	2.99 million USD	Scented Mixtures (2.4%)	1.57 million USD
10.	Artificial Filament Sewing Thread (1.3%)	1.89 million USD	Other Heating Machinery (2.4%)	1.51 million USD

Source: The Observatory of Economic Complexity (https://oec.world/en/visualize/tree_map/hs92/import/idn/hun/show/2017/), accessed March 20, 2020.

Table 3.6. shows Indonesia's export commodities to Hungary in 2017 are led by rubber, electric heaters, and computers followed by oxygen amino compounds and facial tissue. Whereas, Indonesia's import commodities from Hungary in 2017 are led by machinery having individual functions, gas turbines, aircraft parts, oscilloscopes, and electrical ignitions.

Additionally, the export-oriented sector from Indonesia in Hungary also includes coffee, exotic spices, coconut butter, palm oil, and various organic foods. Other important export items are handmade ornaments made of leather and other materials, rubber and textile goods, rattan furniture, and beauty products. With an explosion in demand for coconut-based products in Hungary too, Indonesia wants to focus on increasing coffee specialisation.[76]

In line with the explosion in demand for coconut-based products, if we disaggregate the data from the trade map, it shows Indonesia's exports to Hungary are still dominated by coconut commodities and its derivatives. Even though Indonesia is the second-largest coconut oil-producing country in the world after the Philippines, if Indonesia can conclude the new trade agreement with the EU, Indonesia will gain a greater market share in the V4.[77] Currently, market demand in Hungary continues to increase. This is marked by the continued increase in the value of coconut oil exports to Hungary. Moreover, Indonesia's exports to Hungary are still small. So far, Indonesia's exports of these products are still dominated by traditional markets such as the Netherlands, the United States, Malaysia, China, and South Korea.[78]

Accordingly, since 2009, Indonesian coconut oil has penetrated the Hungarian Market with a trade contract value of 111,753 USD. When compared to 2000, exports to Hungary were still in the form of raw products that did not yet have added value such as coconut powder. The total exports of coconut oil products from 2010-2014 increased by a trend of 4.57%. In 2010 exports were recorded at 566 million USD, while in 2014 it increased to 943.6 million USD. In addition, based on the RCA index, it is found that Indonesian coconut oil has a lower RCA value of 7.08 compared to its competitors in the Philippines with an RCA value of 8.33.[79] This shows this commodity has a comparative advantage above the world average and strong competitiveness.

Although from year to year the value of Indonesia's exports to Hungary continued to increase. However, exports to Hungary were still small, in 2014 they amounted to 175,000 USD, but compared to 2010 the value of exports had increased because in that

[76] Piac és Profit, "Tovább erősödik az indonéz-magyar kereskedelmi együttműködés," accessed March 29, 2020. https://piacesprofit.hu/cegkartya/tovabb-erosodik-az-indonez-magyar-kereskedelmi-egyuttmukodes/.
[77]The Observatory of Economic Complexity, "Coconut Oil," accessed March 20, 2020. https://oec.world/en/profile/hs92/1513/.
[78]ITPC Osaka, "Laporan Informasi Intelijen Bisnis 2019: Coconut Oil HS 1513," accessed March 18, 2020. http://itpc.or.jp/wp-content/uploads/2020/02/9.-MB-Minyak-Kelapa-HS-1513-Final.pdf.
[79] Heriyanto Heriyanto, "Indonesian Coconut Competitiveness In International Markets." *Asia Proceedings of Social Sciences* 1, no. 3 (2018): 46-50. https://doi.org/10.31580/apss.v1i3.390.

year exports were recorded at only 17,000 USD. Furthermore, exports of food products such as coffee and spices to Hungary are quite promising given the demand for these products is quite high. However, Indonesia's exports have not been able to meet all the demands in Hungary. This is caused by high export costs due to the geographical location far between Hungary and Indonesia.[80]

3.2.4. Poland

This part will convey the trade structure of Poland. Thus, we can have an overview of Poland's position in the international division of labour and its level of economic development.

Chart 3.17. Structure of Merchandise Trade (exports) in 2017

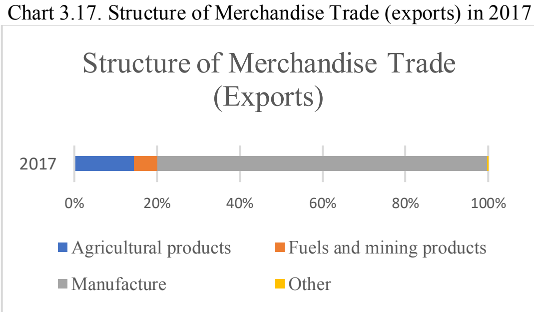
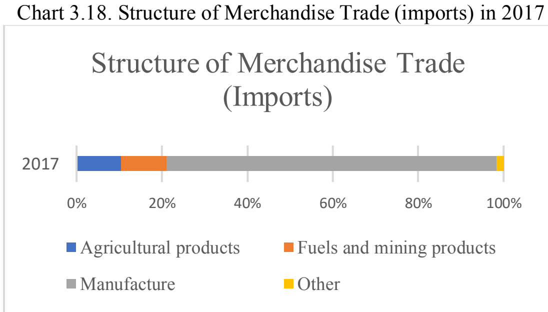


Chart 3.18. Structure of Merchandise Trade (imports) in 2017



Source: WTO (https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/PL_e.pdf), accessed Dec 2, 2019.

The Polish merchandise exports to its partners are heavily dominated by manufacturing around 79.7%, agricultural products around 14.4%, fuel and mining products around 5.7%, and 0.3% for other products. Polish merchandise imports from its partners are also dominated by manufacturing around 77.3%, followed by fuel and mining products around 10.7%, agricultural products around 10.4%, and 1.6% for other products.

Table 3.7. Poland's Trade Composition (in USD current price) in 2017

No.	Poland's Trade Composition			
	Export Commodities	**Value**	**Import Commodities**	**Value**
1.	Vehicle Parts (6.2%)	13.2 billion USD	Cars (4.0%)	9.05 billion USD
2.	Cars (3.2%)	6.87 billion USD	Crude Petroleum (3.7%)	8.22 billion USD
3.	Seats (2.7%)	5.77 billion USD	Vehicle Parts (3.4%)	7.71 billion USD
4.	Other Furniture (2.2%)	4.61 billion USD	Packaged Medicaments (2.0%)	4.49 billion USD
5.	Video Displays (1.8%)	3.79 billion USD	Office Machine Parts (1.9%)	4.14 billion USD

[80] Bisnis Indonesia, "Laporan Dari Hongaria: Ini Peluang Ekspor dan Investasi di Budapest," accessed March 17, 2020 https://ekonomi.bisnis.com/read/20190314/12/899709/laporan-dari-hongaria-ini-peluang-ekspor-dan-investasi-di-budapest.

6.	Computers (1.6%)	3.46 billion USD	Broadcasting Equipment (1.8%)	3.98 billion USD
7.	Packaged Medicaments (1.4%)	2.95 billion USD	Refined Petroleum (1.5%)	3.34 billion USD
8.	Rolled Tobacco (1.4%)	2.88 billion USD	Broadcasting Accessories (1.2%)	2.57 billion USD
9.	Insulated Wire (1.3%)	2.74 billion USD	Integrated Circuits (1.1%)	2.52 billion USD
10.	Rubber Tires (1.0%)	2.17 billion USD	Computers (1.1%)	2.45 billion USD

Source: The Observatory of Economic Complexity (https://oec.world/en/profile/country/pol/), accessed March 20, 2020.

The latest available data concerning exports were led by vehicle parts which represented 6.2% of Poland's total exports, followed by cars, which accounted for 3.2%. The latest imports were led by cars which represented 4.0% of Poland's total imports, followed by crude petroleum, which accounted for 3.7% (see table 3.7.).

Table 3.8. Indonesia and Poland's Trade Composition (in USD current price) in 2017

No.	Indonesia and Poland's Trade Composition			
	Export Commodities	**Value**	**Import Commodities**	**Value**
1.	Mirrors and Lenses (6.8%)	47.6 million USD	Whey (14%)	19.2 million USD
2.	Rubber (6.6%)	46.1 million USD	Beauty Products (9.0%)	12.6 million USD
3.	Waxes (3.6%)	25 million USD	Perfumes (5.9%)	8.26 million USD
4.	Textile Footwear (3.4%)	24.2 million USD	Vehicle Parts (5.4%)	7.6 million USD
5.	Leather Footwear (3.3%)	23.1 million USD	Razor Blades (3.3%)	4.68 million USD
6.	Broadcasting Accessories (3.1%)	21.4 million USD	Synthetic Rubber (3.0%)	4.19 million USD
7.	Models and Stuffed Animals (2.9%)	20.3 million USD	Sawn Wood (2.0%)	2.77 million USD
8.	Broadcasting Equipment (2.8%)	19.9 million USD	Other Heating Machinery (1.9%)	2.64 million USD
9.	Other Women's Undergarments (2.5%)	17.8 million USD	Malt Extract (1.8%)	2.58 million USD
10.	Non-knit Women's Shirts (2.5%)	17.4 million USD	Steam Boilers (1.7%)	2.4 million USD

Source: The Observatory of Economic Complexity (https://oec.world/en/visualize/tree_map/hs92/import/idn/pol/show/2017/), accessed March 20, 2020.

Indonesia's export commodities to Poland in 2017 shows mirrors and lenses, rubber, and waxes are among the main export commodities followed by textile footwear and leather footwear. Whereas, Indonesia's import commodities from Poland in 2017 are led by whey, beauty products, perfumes, vehicle parts, and razor blades (see table 3.8.).

Currently, Indonesia's exports are mainly dominated by machinery and mechanical devices (29.8%), textiles (14.9%), plastics and rubber (14%), industrial products (8.7%), and ready food and beverages (8.1%). Some Polish goods that eventually end up in

Indonesia are not recorded in local statistics because trade takes place via third countries, mainly Singapore or European countries. Indonesia's import from Poland are mainly dominated by chemical industry products (28.7 %), machines and devices for recording and receiving sound (21 %), animal products (20.2 %), base metal products (7.5 %), plastics and rubber (6.7%).[81]

Some Indonesian products in demand in Poland include instant noodles, coffee candy, batik, furniture, coffee, and palm. Apart from direct trade between the two countries, Indonesian products entered Poland through Germany, Hungary, and several Western European countries. By increasing direct trade, the competitiveness of Indonesian products will increase in the Polish market.[82]

3.2.5.Slovakia

This part will convey the trade structure of Slovakia. Thus, we can have an overview of Slovakia's position in the international division of labour and its level of economic development.

Chart 3.19. Structure of Merchandise Trade (exports) in 2017

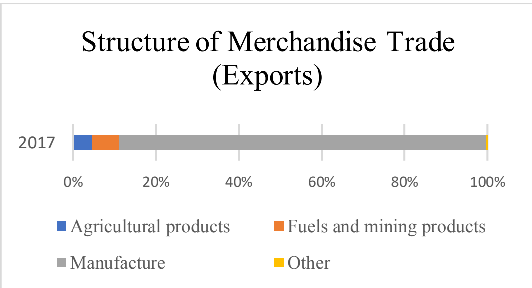
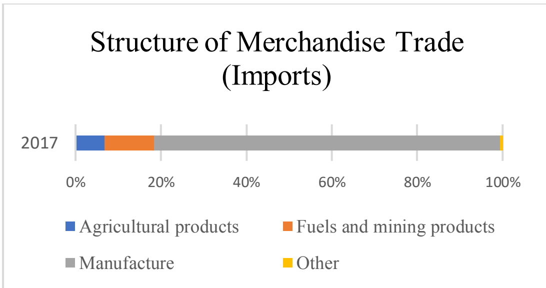


Chart 3.20. Structure of Merchandise Trade (imports) in 2017



Source: WTO (https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/SK_e.pdf), accessed Dec 2, 2019.

The Slovak merchandise exports to its partners are heavily dominated by manufacturing around 88.6%, agricultural products around 4.5%, fuel and mining products around 6.5%, and 0.4% for other products. Slovak merchandise imports from its partners are also dominated by manufacturing around 81.2%, followed by fuel and mining products around 11.5%, agricultural products around 6.8%, and 0.5% for other products.

[81]Strategie i Biznes, "Indonezja – partner trudny, ale perspektywiczny," accessed April 1, 2020. http://strategieibiznes.pl/artykuly/analizy/indonezja-partner-trudny-ale-perspektywiczny/.
[82]Antara News, "Indonesia to boost exports to Poland: Trade Ministry," accessed April 13, 2020 https://en.antaranews.com/news/139836/indonesia-to-boost-exports-to-poland-trade-ministry.

Table 3.9. Slovakia's Trade Composition (in USD current price) in 2017

No.	Slovakia's Trade Composition			
	Export Commodities	**Value**	**Import Commodities**	**Value**
1.	Cars (20%)	15.7 billion USD	Vehicle Parts (9.5%)	7.38 billion USD
2.	Vehicle Parts (7.1%)	5.51 billion USD	Broadcasting Equipment (6.1%)	4.77 billion USD
3.	Video Displays (6.4%)	4.99 billion USD	Cars (3.6%)	2.79 billion USD
4.	Broadcasting Equipment (3.6%)	2.77 billion USD	Petroleum Gas (2.9%)	2.27 billion USD
5.	Refined Petroleum (2.5%)	1.92 billion USD	Crude Petroleum (2.6%)	2.06 billion USD
6.	Rubber Tires (2.1%)	1.59 billion USD	Broadcasting Accessories (2.5%)	1.95 billion USD
7.	Petroleum Gas (1.9%)	1.51 billion USD	Packaged Medicaments (1.6%)	1.27 billion USD
8.	Insulated Wire (1.6%)	1.25 billion USD	Video Displays (1.1%)	888 million USD
9.	Electrical Lighting Signalling Equipment (1.3%)	1.04 billion USD	Other Plastic Products (1.1%)	887 million USD
10.	Transmissions (1.3%)	1 billion USD	Refined Petroleum (1.1%)	883 million USD

Source: The Observatory of Economic Complexity (https://oec.world/en/profile/country/svk/), accessed March 20, 2020.

The latest available data concerning exports were led by cars which represented 20% of total Slovak exports, followed by vehicle parts, which accounted for 7.1%. The latest imports were led by vehicle parts representing 9.5% of total Slovak imports, followed by broadcasting equipment, which accounted for 6.1% (see table 3.9.).

Table 3.10. Indonesia and Slovakia's Trade Composition (in USD current price) in 2017

No.	Indonesia and Slovakia's Trade Composition			
	Export Commodities	**Value**	**Import Commodities**	**Value**
1.	Rubber (26%)	37.8 million USD	Fairground Amusements (15%)	3.72 million USD
2.	Video Recording Equipment (15%)	21.2 million USD	Explosive Ammunition (13%)	3.12 million USD
3.	Electric Heaters (6.8%)	9.94 million USD	Medical Instruments (5.4%)	1.3 million USD
4.	Footwear Parts (5.5%)	8.05 million USD	Centrifuges (4.8%)	1.15 million USD
5.	Textile Footwear (4.0%)	5.85 million USD	Cars (4.6%)	1.1 million USD
6.	Vehicle Parts (4.0%)	5.78 million USD	Ball Bearings (4.4%)	1.06 million USD
7.	Leather Footwear (3.9%)	5.74 million USD	Amine Compounds (4.4%)	1.05 million USD
8.	Other Electrical Machinery (3.9%)	5.71 million USD	Transmissions (3.3%)	799 thousand USD
9.	Knit Socks and Hosiery (1.9%)	2.83 million USD	Air Pumps (3.1%)	748 thousand USD
10.	Rubber Footwear (1.9%)	2.77 million USD	Leather of other Animals (2.8%)	668 thousand USD

Source: The Observatory of Economic Complexity (https://oec.world/en/visualize/tree_map/hs92/import/idn/svk/show/2017/), accessed March 20, 2020.

Indonesia's export commodities to Slovakia in 2017 (see table 3.10.) shows rubber, video recording equipment, and electric heaters are among the main export commodities followed by footwear parts and textile footwear. Whereas, table 3.9. shows Indonesia's import commodities from Slovakia in 2017 are led by fairground amusements, explosive ammunition, medical instruments, centrifuges, and cars. In addition, based on the RCA index in some of Indonesia's main export destination countries such as in the United States, Indonesian rubber products have a higher RCA value of 11.48 compared to its competitors Thailand and Malaysia with RCA values of 7.11 and 6.09. Whereas, for footwear products, Indonesia has a lower RCA value of 5.53 compared to its competitor countries Vietnam with an RCA value of 10.49.[83] This shows Indonesian rubber and footwear have a comparative advantage above the world average and strong competitiveness.

Additionally, since 2016, there appeared to be a shift in Indonesian export commodities to Slovakia where previously Indonesia's leading export commodities were dominated by natural resource-based commodities such as natural rubber which became dominated by manufacturing products as indicated by electronic component products, footwear, and textile products. This is a good thing considering the industrial products have higher added value so that it can increase Indonesia's competitiveness in the Slovak market.[84]

Following these industrial products, coffee is a commodity that is also quite popular in Slovakia. Among the types of coffee that are well known among importers in Slovakia such as Aceh Gayo, Lintong, Java Preanger, Flores Bajawa, Papua Wamena which are imported directly by Petimera are marketed not only in Slovakia but also to the Czech Republic. Apart from direct imports, several coffee importers in Slovakia also obtained coffee from Indonesia through intermediary distributors in Hungary and Germany. Due to the distant geographical location of Indonesia, coffee importers prefer to import from distributors in countries that are closer so that they are considered more efficient. One of the importers is Barzzuz, which imports Java Blawan, Sumatra Mandheling, Kopi Luwak, and Moka Java through distributors in Germany and then markets them through Yeme

[83] Kementerian Perdagangan Republik Indonesia, "Laporan Analisis Daya Saing Indonesia dan ASEAN Lainnya di Pasar Produk Utama Indonesia," accessed March 20, 2020. http://bppp.kemendag.go.id/media_content/2017/08/Analisis_Daya_Saing_Indonesia_dan_Asean_Lainnya_di_Pasar_Produk_Utama_Indonesia.pdf.

[84] KBRI Bratislava, "Laporan Kinerja KBRI Bratislava 2016," accessed March 20, 2020. http://www.indonesia.sk/akip/LKj%202016%20FINAL.pdf.

retail stores. And there is also Tropicana Café in Šaľa which imports coffee from Java, Sulawesi, and Papua through distributors in Hungary.[85] In addition, Indonesia as the seventh-largest producer for coffee also brings opportunity with the increased demand in the V4.[86]

Given the demand for textiles and leather footwear in the V4, it brings opportunities for Indonesia as the third and fourth-largest producers in the world.[87] Currently, Indonesia also ranks fourth among footwear manufacturers with 1.272 million pairs of shoes or 5.3% of world production. In addition, the average price of Indonesian footwear exports still ranks fifth in the world with a value of 16.70 USD, which shows Indonesia produces footwear with competitive prices and good quality.[88] Accordingly, Indonesia, as the second-largest producer for rubber after Thailand, opens an opportunity for Indonesia in the V4, especially in the Czech Republic. Thus, if Indonesia can conclude the new trade agreement with the EU, there will be a trade diversion for the market share with Thailand as the largest producers.[89]

Furthermore, it is evident from the aforementioned trade structure data that V4 countries' merchandise exports and imports to its partners are heavily dominated by manufacturing. The manufacturing sector accounts for more than two-thirds of their total export. Whereas, Indonesian merchandise exports to its partners is still dominated by raw material or primary goods. On the other hand, Indonesian merchandise imports to its partners is dominated by manufacturing.

3.3. Trade Partner's Composition

In this part, the trade partner's composition of V4 will be further discussed. This part will show the position of Indonesia as their trade partner. Accordingly, to see the composition of market share that Indonesia has in the V4, several trading partner organisations have been selected for comparisons such as the EU, BRICs (Brazil, Russia, India, China, and South Africa), and ASEAN.

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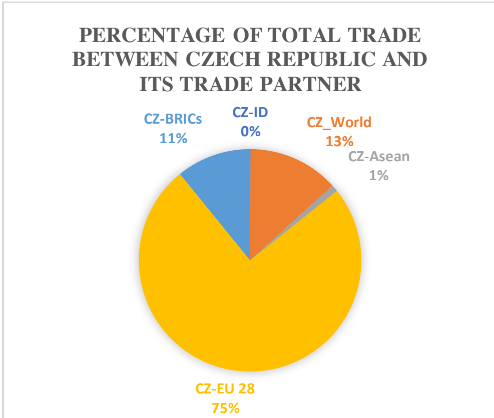
[85] Direktorat Jenderal Pengembangan Ekspor Nasional, "Pasar Tujuan Ekspor."
[86] The Observatory of Economic Complexity, "Coffee," accessed March 20, 2020. https://oec.world/en/profile/hs92/0901/.
[87] The Observatory of Economic Complexity, "Leather Footwear," accessed March 20, 2020. https://oec.world/en/profile/hs92/6403/.
[88] Kementerian Perindustrian Republik Indonesia, "Berorientasi Ekspor, Industri Tekstil dan Alas Kaki Sumbang USD 19 Miliar," accessed April 26, 2020. https://kemenperin.go.id/artikel/21167/Berorientasi-Ekspor,-Industri-Tekstil-dan-Alas-Kaki-Sumbang-USD-19-Miliar.
[89] The Observatory of Economic Complexity, "Rubber," accessed March 20, 2020. https://oec.world/en/profile/hs92/4001/.

3.3.1. Czech's Trade Partner Composition

The main Czech trading partners are dominated by the European Union countries where the proportion reaches 75%. As for the BRICs countries reached 11% and ASEAN only around 1% of the total number of Czech's trade turnover with its trading partners.

Chart 3.21. Percentage of Total Trade Between Czech and Its Trade Partner in 2018

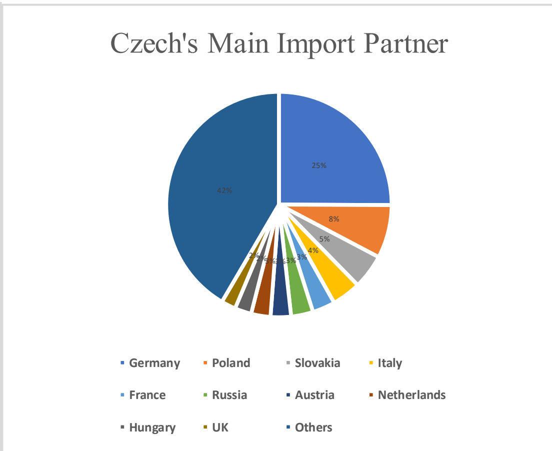


Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

In 2018, the trade turnover between the Czech Republic and Indonesia was around 262,018 USD. This only covers about 0.07% of total trade between Indonesia and its trading partners, 0.06% of total Czech trade, and 6.41% of total trade between Czech and other ASEAN countries. Indonesia is only ranked as the 53rd trading partner of the Czech Republic. And the Czech Republic is ranked as the 38th Indonesian trading partner.[90]

Chart 3.22. Czech's Main Export Partner in 2018

Chart 3.23. Czech's Main Import Partner in 2018



Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

As for the Czech main export trading partners consisting of Germany 33%, Slovakia 8%, Poland 6%, France 5%, UK 5%, Austria 4%, Italy 4%, Netherlands 4%,

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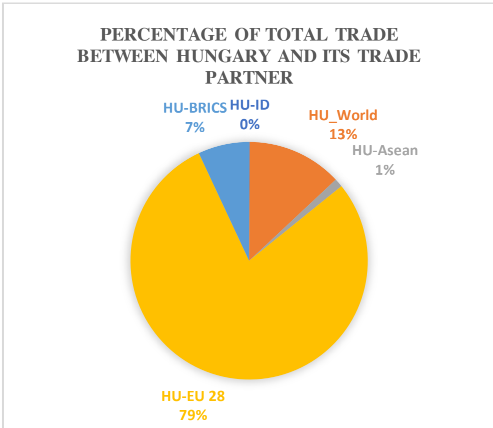
[90] The Observatory of Economic Complexity, "Country Profile: Indonesia," accessed Dec 10, 2019. https://oec.world/en/profile/country/idn/.

Spain 3%, Hungary 3%, and 25% for other export trading partners. As for the Czech main import trading partners consisting of Germany 25%, Poland 8%, Slovakia 5%, Italy 4%, France 3%, Russia 3%, Austria 3%, Netherlands 3%, Hungary 2%, UK 2%, and 42% for other import trading partners.

3.3.2. Hungary's Trade Partner Composition

Mainly Hungary's trading partners are dominated by the European Union countries where the proportion reaches 79%. While the BRICs countries reached 7% and ASEAN only around 1% of the total number of Hungary's trade turnover with its trading partners.

Chart 3.24. Percentage of Total Trade Between Hungary and Its Trade Partner in 2018

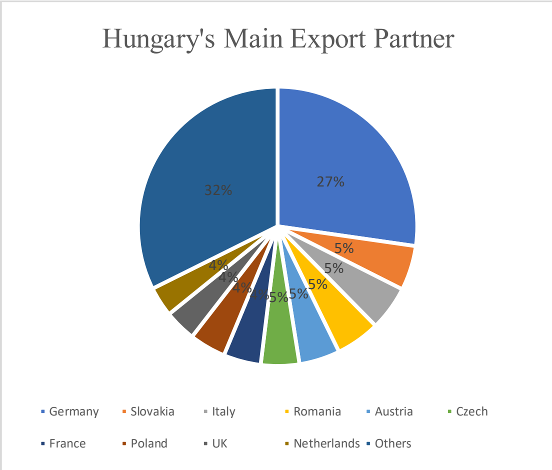


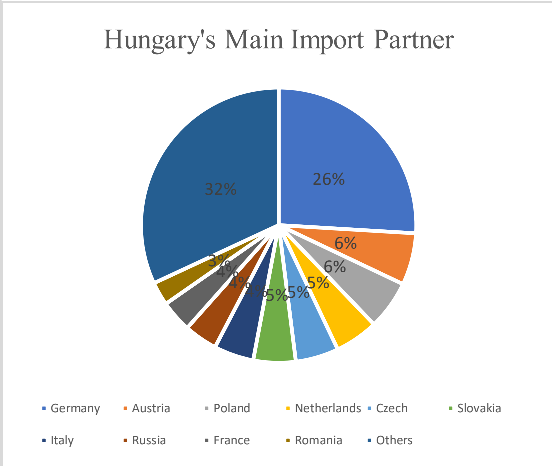
Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

In 2018, total trade between Hungary and Indonesia was recorded at 190,225 USD or only around 0.05% of total Indonesian trade, 0.08% of total Hungarian trade, and 6.40% of total trade between Hungary and other ASEAN countries. The rank of Indonesia as a trading partner for Hungary is even lower, only ranked 67th. Whereas Hungary is ranked 62nd of Indonesian trading partners.[91]

[91] The Observatory of Economic Complexity, "Country Profile: Indonesia".

Chart 3.25. Hungary's Main Export Partner in 2018 Chart 3.26. Hungary's Main Import Partner in 2018





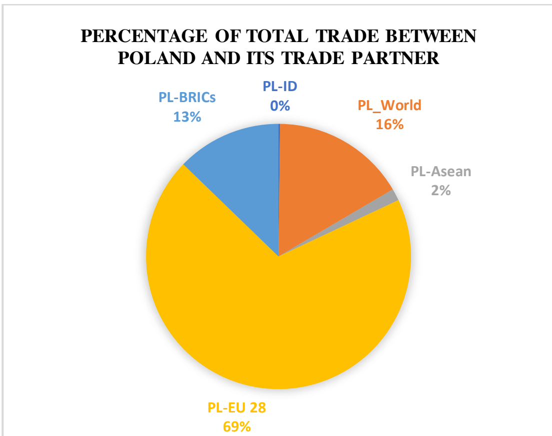
Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

As for Hungary's main export trading partners consisting of Germany 27%, Slovakia 5%, Italy 5%, Romania 5%, Austria 5%, Czechia 5%, France 4%, Poland 4%, UK 4%, Netherlands 4%, and 32% for other export trading partners. As for Hungary's main import trading partners consisting of Germany 26%, Austria 6%, Poland 6%, the Netherlands 5%, Czechia 5%, Slovakia 5%, Italy 5%, Russia 4%, France 4%, Romania 3%, and 32% for other import trading partners.

3.3.3. Poland's Trade Partner Composition

The main Polish trading partners are dominated by the European Union countries where the proportion reaches 69%. While the BRICs countries reached 13% and ASEAN only around 2% of the total number of Poland's trade turnover with its trading partners.

Chart 3.27. Percentage of Total Trade Between Poland and Its Trade Partner in 2018



Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

The largest total trade amount between V4 and Indonesia was from Poland around 1,014,698 USD in 2018. It captured 0.27% of total Indonesian trade, 0.19% of total Polish trade, and 11.65% of total trade between Poland and ASEAN. It made Poland rank 32nd of the Indonesian trading partners, however, Indonesia is only ranked 66th of the Polish trading partners.[92]

Chart 3.28. Hungary's Main Export Partner in 2018 Chart 3.29. Hungary's Main Import Partner in 2018

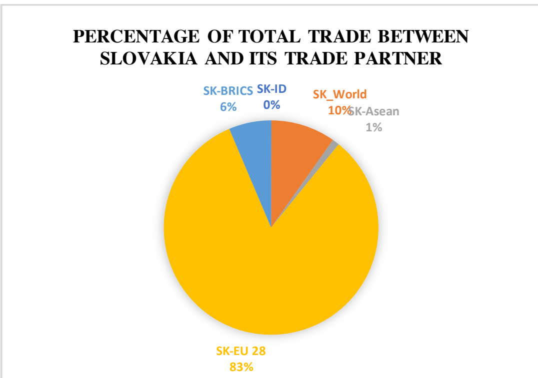
Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

As for the Poland main export trading partners consisting of Germany 28%, Czechia 6%, UK 6%, France 5%, Italy 5%, Netherlands 4%, Russia 3%, Sweden 3%, Hungary 3%, Spain 3%, and 34% for other export trading partners. As for Poland's main import trading partners consisting of Germany 22%, Russia 7%, Italy 5%, France 4%, Netherlands 4%, Czechia 3%, Belgium 2%, UK 2%, Spain 2%, Slovakia 2%, and 46% for other import trading partners.

3.3.4. Slovakia's Trade Partner Composition

The main Slovak trading partners are dominated by the European Union countries where the proportion reaches 83%. While the BRICs countries reached 6% and ASEAN only around 1% of the total number of Slovak trade turnover with its trading partners.

Chart 3.30. Percentage of Total Trade Between Poland and Its Trade Partner in 2018



Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

[92] The Observatory of Economic Complexity, "Country Profile: Indonesia".

The trade turnover between Slovakia and Indonesia in 2018 turned out to be smaller, only reaching 93,071 USD. That was around 0.025% of total Indonesian trade or 0.05% of total Slovak trade and 4.4% of total trade between Slovakia and ASEAN. As for the ranking, Indonesia is ranked 70th of the Slovakian trading partners whereas Slovakia is ranked 61st of Indonesian trading partners.[93]

Chart 3.31. Hungary's Main Export Partner in 2018

Chart 3.32. Hungary's Main Import Partner in 2018

Source: Trade Map (https://www.trademap.org/Index.aspx) accessed Dec 10, 2019.

As for the Slovak main export trading partners consisting of Germany 22%, Czechia 12%, Poland 8%, France 6%, Italy 6%, Austria 6%, Hungary 6%, UK 5%, Spain 3%, Romania 2%, and 24% for other export trading partners. As for the Slovak main import trading partners consisting of Germany 20%, Czechia 16%, Austria 10%, Poland 7%, Hungary 7%, Russia 5%, France 4%, Italy 3%, UK 2%, Romania 2%, and 24% for other import trading partners. Thus, we can clearly see that V4 is heavily dependent on the intra-EU trade both for their export and import.

As observed in the following Charts (Chart 3.21-3.30), it is obvious that most of the V4 exports and imports went to the EU countries as their main trade partners followed by the BRICs. Accordingly, the total market shares of V4 for the Association of Southeast Asian Nations (ASEAN) countries are really small. Furthermore, in comparison to other ASEAN, such as Singapore and Vietnam, the total market share between Indonesia and each of the V4 member countries is relatively small. Thus, Indonesia and the V4 have remained marginal partners.

Accordingly, V4 products may reach the Indonesian market either directly or indirectly, via the network of large transnational firms as intermediary products, to be

[93] The Observatory of Economic Complexity, "Country Profile: Indonesia."

built into the final product, or as final products, re-exported from other EU member states. Thus, it also means that the final destination of several intermediary products in the V4 manufacturing export has not been covered by bilateral statistics. Moreover, a distant geographical location also plays a role in determining the volume of trade between V4 and Indonesia. Further related reasons for trade barriers will be discussed in more detail in the next chapter.

3.4. Participation in Global Value Chains (GVCs)

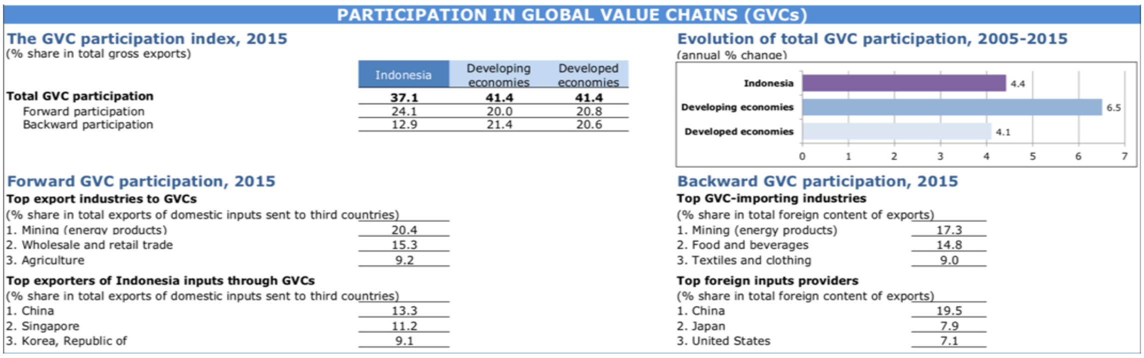
Global value chains (GVCs) refer to the division of international production, a phenomenon in which production is divided into activities and tasks carried out in various countries. They can be considered as a massive expansion of the labour division. The value ranges from 0 to 100. The value indicates the country's participation in GVCs. The higher the value, the higher the country's participation in GVCs.

Countries can participate in GVCs by joining in either backward or forward linkages. When a country participates in GVCs by importing foreign inputs to produce the goods and services they export, it is called backward GVCs participation. Backward GVC integration is where intermediate inputs are imported for use in the production of the final good. They usually replace the inputs produced domestically at a higher cost, increasing competitiveness. Thus, backward GVCs are considered as foreign value added in domestic export.[94]

Similarly, when a country participates in GVCs by exporting domestically produced inputs to partners in charge of downstream production stages it is called forward GVCs participation. Forward integration is more dominant in higher-income countries in the GVC, which tend to export technically sophisticated intermediate inputs for use in this final assembly. Finally, post-production stages like marketing services tend to be done in high-income countries that are the export destinations. Thus, forward GVCs are considered as the domestic value-added in foreign export (World Bank, 2017).

[94] WTO, "Trade in Value-Added and Global Value Chains," accessed Dec 2, 2019. https://www.wto.org/english/res_e/statis_e/miwi_e/Explanatory_Notes_e.pdf.

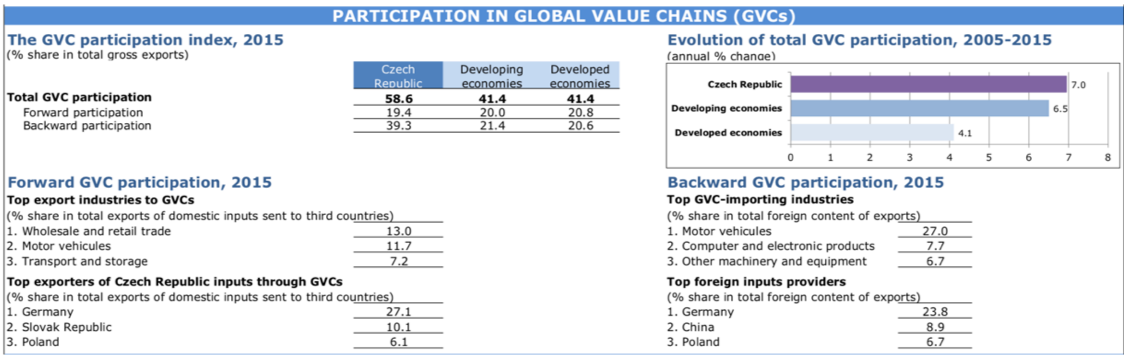
Chart 3.33. Indonesia's Participation in Global Value Chains (GVCs) in 2015



Source: WTO, (https://www.wto.org/english/res_e/statis_e/miwi_e/ID_e.pdf) accessed Dec 2, 2019.

The value of Indonesian forward GVCs participation is higher than its backward around 24.1 and 12.9 respectively. This indicates that Indonesia is exporting more domestically produced inputs to produce the goods and services they import and importing lower foreign inputs to produce the goods and services they export, thus, it has more domestic value-added in its foreign export than the foreign value-added for its domestic export. China, Singapore, and the Republic of Korea are the main exporter countries of Indonesian domestic input through GVCs which accounted for 13.3%, 11.2%, and 9.1% respectively. As for the main foreign input providers of Indonesia, they are China, Japan, and the United States which accounted for 19.5%, 7.9%, and 7.1% respectively of the total foreign content of exporters.

Chart 3.34. Czech's Participation in Global Value Chains (GVCs) in 2015

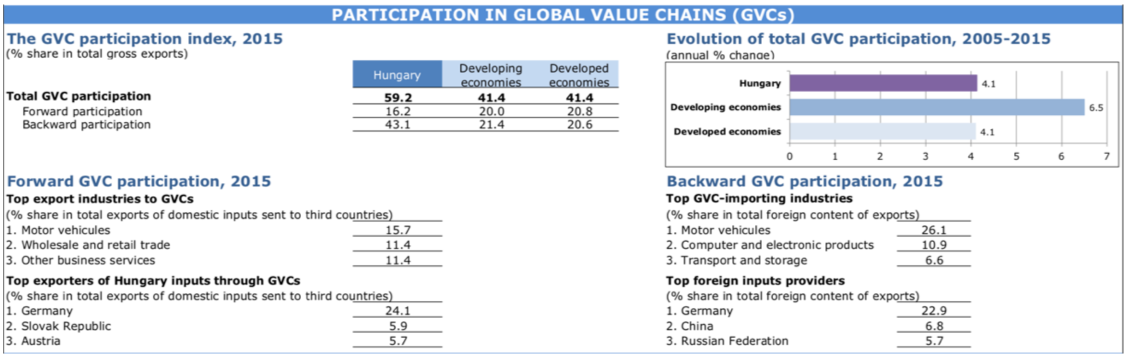


Source: WTO, (https://www.wto.org/english/res_e/statis_e/miwi_e/CZ_e.pdf) accessed Dec 2, 2019.

The value of Czech's forward GVCs participation is lower than its backward around 19.4 and 39.3 respectively. This indicates that the Czech Republic is importing more foreign inputs to produce the goods and services they export and exporting lower domestically produced inputs to produce the goods and services they import, thus, it has more foreign value-added in its domestic export than the domestic value-added for its foreign export. Germany, Slovakia, and Poland are the main exporter countries of the

Czech's domestic input through GVCs which accounted for 27.1%, 10.1%, and 6.1% respectively. As for the main foreign input providers of the Czech Republic, they are Germany, China, and Poland which accounted for 23.8%, 8.9%, and 6.7% respectively of the total foreign content of exporters.

Chart 3.35. Hungary's Participation in Global Value Chains (GVCs) in 2015



PARTICIPATION IN GLOBAL VALUE CHAINS (GVCs)

The GVC participation index, 2015
(% share in total gross exports)

	Hungary	Developing economies	Developed economies
Total GVC participation	**59.2**	**41.4**	**41.4**
Forward participation	16.2	20.0	20.8
Backward participation	43.1	21.4	20.6

Evolution of total GVC participation, 2005-2015
(annual % change)

Forward GVC participation, 2015

Top export industries to GVCs (% share in total exports of domestic inputs sent to third countries)	
1. Motor vehicules	15.7
2. Wholesale and retail trade	11.4
3. Other business services	11.4

Top exporters of Hungary inputs through GVCs (% share in total exports of domestic inputs sent to third countries)	
1. Germany	24.1
2. Slovak Republic	5.9
3. Austria	5.7

Backward GVC participation, 2015

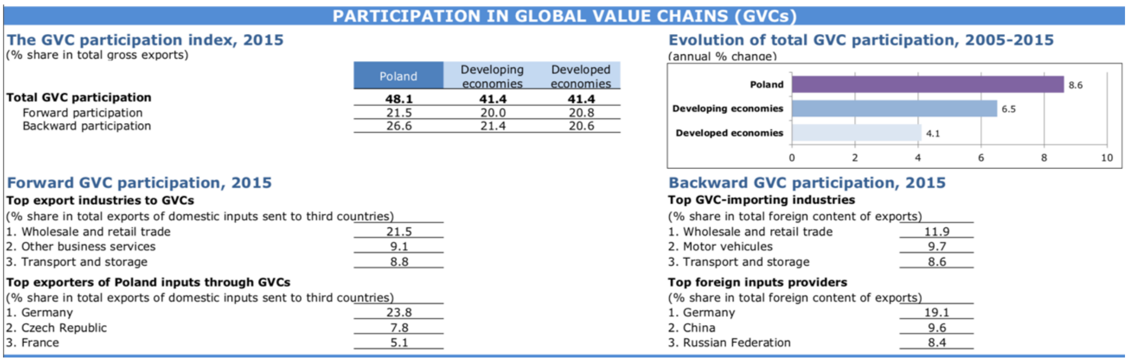
Top GVC-importing industries (% share in total foreign content of exports)	
1. Motor vehicules	26.1
2. Computer and electronic products	10.9
3. Transport and storage	6.6

Top foreign inputs providers (% share in total foreign content of exports)	
1. Germany	22.9
2. China	6.8
3. Russian Federation	5.7

Source: WTO, (https://www.wto.org/english/res_e/statis_e/miwi_e/HU_e.pdf) accessed Dec 2, 2019.

The value of Hungary's forward GVCs participation is lower than its backward around 16.2 and 43.1 respectively. This indicates that Hungary is importing more foreign inputs to produce the goods and services they export and exporting lower domestically produced inputs to produce the goods and services they import, thus, it has more foreign value-added in its domestic export than the domestic value-added for its foreign export. Germany, Slovakia, and Austria are the main exporter countries of Hungary's domestic input through GVCs which accounted for 24.1%, 5.9%, and 5.7% respectively. As for the main foreign input providers of Hungary, they are Germany, China, and Russian Federation which accounted for 22.9%, 6.8%, and 5.7% respectively of the total foreign content of exporters.

Chart 3.36. Poland's Participation in Global Value Chains (GVCs) in 2015



PARTICIPATION IN GLOBAL VALUE CHAINS (GVCs)

The GVC participation index, 2015
(% share in total gross exports)

	Poland	Developing economies	Developed economies
Total GVC participation	**48.1**	**41.4**	**41.4**
Forward participation	21.5	20.0	20.8
Backward participation	26.6	21.4	20.6

Evolution of total GVC participation, 2005-2015
(annual % change)

Forward GVC participation, 2015

Top export industries to GVCs (% share in total exports of domestic inputs sent to third countries)	
1. Wholesale and retail trade	21.5
2. Other business services	9.1
3. Transport and storage	8.8

Top exporters of Poland inputs through GVCs (% share in total exports of domestic inputs sent to third countries)	
1. Germany	23.8
2. Czech Republic	7.8
3. France	5.1

Backward GVC participation, 2015

Top GVC-importing industries (% share in total foreign content of exports)	
1. Wholesale and retail trade	11.9
2. Motor vehicules	9.7
3. Transport and storage	8.6

Top foreign inputs providers (% share in total foreign content of exports)	
1. Germany	19.1
2. China	9.6
3. Russian Federation	8.4

Source: WTO, (https://www.wto.org/english/res_e/statis_e/miwi_e/PL_e.pdf) accessed Dec 2, 2019.

The value of Polish forward GVCs participation is lower than its backward around 21.5 and 26.6 respectively. This indicates that Poland is importing more foreign inputs to produce the goods and services they export and exporting lower domestically produced inputs to produce the goods and services they import, thus, it has more foreign value-added in its domestic export than the domestic value-added for its foreign export. Germany, Czech Republic, and France are the main exporter countries of Polish domestic input through GVCs which accounted for 23.8%, 7.8%, and 5.1% respectively. As for the main foreign input providers of Poland, they are Germany, China, and Russian Federation which accounted for 19.1%, 9.6%, and 8.4% respectively of the total foreign content of exporters.

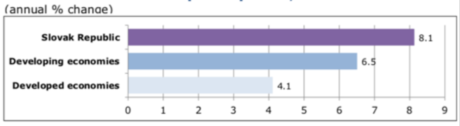
Chart 3.37. Slovakia's Participation in Global Value Chains (GVCs) in 2015

PARTICIPATION IN GLOBAL VALUE CHAINS (GVCs)

The GVC participation index, 2015
(% share in total gross exports)

	Slovak Republic	Developing economies	Developed economies
Total GVC participation	**63.6**	**41.4**	**41.4**
Forward participation	18.8	20.0	20.8
Backward participation	44.8	21.4	20.6

Evolution of total GVC participation, 2005-2015
(annual % change)



Forward GVC participation, 2015

Top export industries to GVCs
(% share in total exports of domestic inputs sent to third countries)

1. Wholesale and retail trade	15.0
2. Motor vehicules	13.6
3. Transport and storage	9.4

Top exporters of Slovak Republic inputs through GVCs
(% share in total exports of domestic inputs sent to third countries)

1. Germany	21.4
2. Czech Republic	14.9
3. Hungary	9.6

Backward GVC participation, 2015

Top GVC-importing industries
(% share in total foreign content of exports)

1. Motor vehicules	30.8
2. Computer and electronic products	8.8
3. Wholesale and retail trade	6.5

Top foreign inputs providers
(% share in total foreign content of exports)

1. Germany	17.0
2. China	8.5
3. Czech Republic	8.3

Source: WTO, (https://www.wto.org/english/res_e/statis_e/miwi_e/SK_e.pdf) accessed Dec 2, 2019.

The value of Slovak forward GVCs participation is lower than its backward around 18.8 and 44.8 respectively. This indicates that Slovakia is importing more foreign inputs to produce the goods and services they export and exporting lower domestically produced inputs to produce the goods and services they import, thus, it has more foreign value-added for its domestic export than the domestic value-added for its foreign export. Germany, Czech Republic, and Hungary are the main exporter countries of Slovak domestic input through GVCs which accounted for 21.4%, 14.9%, and 9.6% respectively. As for the main foreign input providers of Slovak Republic, they are Germany, China, and the Czech Republic which accounted for 17.0%, 8.5%, and 8.3% respectively of the total foreign content of exporters. Thus, it is evident from the aforementioned data that V4 countries are strongly really linked to Germany. V4 produces the final product or the pre-final product and exports this product to Germany. Whereas, Indonesia is strongly linked to China and other non-EU countries. Indonesia produces the final product or the pre-final product and exports this product to other Asian countries such as China, Singapore, and South Korea.

Chapter IV. Barriers of Indonesian Trade Flows to the V4

In this chapter, the key factors that influence trade flows between the V4 and Indonesia will be disclosed. It starts by showing the trade barrier profiles in the WTO for each of the V4 countries and Indonesia. Then, it is followed by the explanation of the tariff and non-tariff barriers on trade between the EU including V4 and Indonesia. Then, it shows the trade cost imposed by the environment. Thus, we will answer the sub-question.

4.1. Trade barrier profiles in the WTO (the European Union, Czech Republic, Hungarian, Polish and Indonesian profile)

This part will convey the trade barriers of the European Union including the V4 and convey the trade barriers of Indonesia to its trade partners. This will help us to have a general overview of the trade barriers, especially the tariff rates of each country.

4.1.1. Trade Barriers of the European Union

Table 4.1. shows a summary of EU tariffs and imports. All EU tariff lines are bound by WTO commitments. The average final bound rate is 5.1%. The average MFN tariff rate is 5.2%. Accordingly, based on the classification of MFN tariff levels in 2018 for agricultural products, the European Union removed 31% of the total tariff lines. The remaining 64.8% of the total tariff lines are not free (0%). In addition, the European Union imposes a Non-Ad Valorem (NAV) tariff of 32.9% of the total tariff lines.

Whereas on non-agricultural products, the European Union removed 27.5% of the total tariff lines. The remaining 72.6% of the total tariff lines are not free (0%). In addition, the European Union also applies NAV tariffs of 0.5% of the total tariff lines.

Table 4.1. Tariffs and imports of the European Union

Part A.1 **Tariffs and imports: Summary and duty ranges**

Summary		Total	Ag	Non-Ag	WTO member since		1995
Simple average final bound		5.1	12.8	3.9	Binding coverage:	Total	100
Simple average MFN applied	2018	5.2	12.0	4.2		Non-Ag	100
Trade weighted average	2017	3.0	8.1	2.7	Ag: Tariff quotas (in %)		13.5
Imports in billion US$	2017	1,875.2	126.4	1,748.8	Ag: Special safeguards (in %)		23.0

Frequency distribution		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV
		Tariff lines and import values (in %)								in %
Agricultural products										
Final bound		31.4	11.2	16.6	13.2	11.8	9.7	3.0	1.0	31.7
MFN applied	2018	31.0	11.1	17.5	13.0	11.2	8.1	3.1	0.8	32.9
Imports	2017	41.3	12.6	17.8	9.0	7.7	5.9	1.8	0.0	24.1
Non-agricultural products										
Final bound		28.9	36.4	26.9	6.7	1.0	0.0	0	0	0.6
MFN applied	2018	27.5	35.6	28.0	7.5	1.4	0.1	0	0	0.5
Imports	2017	53.9	25.8	12.9	6.2	1.2	0.0	0	0	0.4

Part A.2 **Tariffs and imports by product groups**

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free in %	Max	Binding in %	AVG	Duty-free in %	Max	Share in %	Duty-free in %
Animal products	17.8	24.3	152	100	17.9	28.4	152	0.3	6.2
Dairy products	44.8	0	258	100	43.7	0	235	0.0	0
Fruit, vegetables, plants	11.8	21.7	218	100	10.7	19.8	218	1.9	15.8
Coffee, tea	5.9	27.1	16	100	5.9	27.1	16	1.0	70.8
Cereals & preparations	17.8	6.5	64	100	14.9	7.8	51	0.6	33.1
Oilseeds, fats & oils	5.8	47.0	112	100	5.5	48.1	112	1.6	65.2
Sugars and confectionery	28.3	0	140	100	27.5	11.8	140	0.1	10.5
Beverages & tobacco	19.8	19.6	152	100	19.8	18.4	152	0.6	20.4
Cotton	0.0	100.0	0	100	0.0	100.0	0	0.0	100.0
Other agricultural products	5.0	64.7	556	100	3.3	65.5	75	0.5	64.8
Fish & fish products	11.4	11.8	26	100	11.6	7.4	26	1.5	3.7
Minerals & metals	1.9	50.0	12	100	2.0	50.0	12	16.1	68.6
Petroleum	3.1	20.0	5	100	2.5	33.7	5	13.4	98.3
Chemicals	4.5	21.9	7	100	4.6	22.3	13	11.3	49.9
Wood, paper, etc.	0.9	82.9	10	100	0.9	81.5	11	2.7	83.6
Textiles	6.6	3.1	12	100	6.5	2.1	12	2.5	2.0
Clothing	11.5	0	12	100	11.5	0	12	4.8	0
Leather, footwear, etc.	4.2	25.7	17	100	4.1	27.2	17	2.7	14.0
Non-electrical machinery	1.7	27.6	10	100	1.8	23.9	10	11.4	46.7
Electrical machinery	2.4	32.8	14	100	2.4	23.9	14	13.3	58.3
Transport equipment	4.1	16.5	22	100	4.7	12.9	22	6.6	9.6
Manufactures, n.e.s.	2.4	27.1	14	100	2.2	28.4	10	6.9	57.2

Source: WTO (https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/E28_E.pdf), accessed Dec 2, 2019.

Accordingly, the average MFN tariff rate for products such as coffee and tea, textile, and leather and footwear are 5.9%, 6.5%, 4.1% respectively. In addition, for coffee and tea, textiles, and leather and footwear, the European Union removed tariffs of 27.1%, 2.1%, 27.2% of the total tariff lines respectively.

4.1.2. Trade Barriers of Indonesia

Table 4.2. illustrates a summary of tariffs and the number of Indonesia's imports. Similarly, Indonesian tariff lines are also bound by WTO commitments. The average final bound rate is 37.1%. The average MFN tariff rate is 8.1%. Based on the classification of

MFN tariff levels in 2018 for agricultural products, Indonesia removed 8.5% of the total tariff lines. The remaining 91.5% of the total tariff lines are not free (0%). In addition, Indonesia imposed a NAV tariff of 1.4% of the total tariff lines.

While for non-agricultural products, Indonesia removed 86.2% of the total tariff lines. The remaining 72.6% of the total tariff lines are not free (0%). In addition to non-agricultural products, Indonesia does not impose NAV tariffs on its tariff lines.

Table 4.2. Tariffs and imports of Indonesia

Part A.1 **Tariffs and imports: Summary and duty ranges**

Summary		Total	Ag	Non-Ag	WTO member since		1995
Simple average final bound		37.1	47.1	35.5	Binding coverage:	Total	96.3
Simple average MFN applied	2018	8.1	8.6	8.0		Non-Ag	95.8
Trade weighted average	2017	5.4	5.5	5.4	Ag: Tariff quotas (in %)		1.0
Imports in billion US$	2017	156.4	19.0	137.4	Ag: Special safeguards (in %)		0.7

Frequency distribution			Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV
			Tariff lines and import values (in %)								in %
Agricultural products											
	Final bound		0	0	0.6	0	0	87.5	8.6	3.2	0
	MFN applied	2018	8.5	76.5	4.6	0.8	5.1	2.4	1.1	1.0	1.4
	Imports	2017	39.5	42.8	13.5	1.0	2.7	0.3	0.1	0.1	11.7
Non-agricultural products											
	Final bound		2.8	0	0.0	3.6	0	89.3	0.0	0.0	0
	MFN applied	2018	13.8	50.1	16.2	10.1	8.9	0.9	0	0.0	0.0
	Imports	2017	40.8	34.2	13.2	7.6	2.9	1.3	0	0.0	0.0

Part A.2 **Tariffs and imports by product groups**

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free in %	Max	Binding in %	AVG	Duty-free in %	Max	Share in %	Duty-free in %
Animal products	43.7	0	50	100	7.1	8.1	30	0.7	2.5
Dairy products	74.0	0	210	100	5.5	0	10	0.6	0
Fruit, vegetables, plants	45.6	0	60	100	5.7	5.6	20	1.5	0.2
Coffee, tea	45.3	0	60	100	13.2	0	20	0.5	0
Cereals & preparations	44.8	0	160	100	7.4	9.6	150	2.7	62.6
Oilseeds, fats & oils	39.9	0	60	100	4.4	12.0	10	2.2	82.5
Sugars and confectionery	58.3	0	95	100	7.2	0	20	1.5	0
Beverages & tobacco	81.3	0	150	100	45.8	0	150	0.5	0
Cotton	37.4	0	40	100	4.0	20.0	5	0.8	99.9
Other agricultural products	40.7	0	60	100	4.1	17.1	5	1.1	43.9
Fish & fish products	40.0	0	40	100	6.3	1.4	20	0.3	17.9
Minerals & metals	38.8	0.1	40	97.7	7.1	17.7	30	16.4	37.7
Petroleum	40.0	0	40	100	0.2	95.8	5	13.5	98.9
Chemicals	37.9	0.1	60	96.0	5.3	14.9	150	13.5	25.2
Wood, paper, etc.	39.4	0	40	100	5.0	31.1	25	2.6	46.7
Textiles	26.4	0	40	99.7	11.5	0.9	35	4.8	2.0
Clothing	35.0	0	40	100	23.9	0	25	0.4	0
Leather, footwear, etc.	39.7	0	50	99.4	9.9	14.4	30	2.1	13.2
Non-electrical machinery	35.0	6.5	40	98.3	5.4	16.2	30	13.9	24.3
Electrical machinery	30.5	23.2	40	96.5	6.0	24.9	20	11.3	54.6
Transport equipment	38.8	0	40	52.8	13.5	29.2	50	5.7	21.3
Manufactures, n.e.s.	35.4	9.4	40	87.0	7.5	8.0	25	3.3	12.6

Source: WTO (https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/ID_E.pdf), accessed Dec 2, 2019.

Accordingly, the average MFN tariff rates for products such as coffee and tea, textiles, and leather and footwear are 13.2%, 11.5%, 9.9% respectively. In addition, for textiles and leather and footwear, Indonesia removed tariffs of 0.9% and 14.4% of the total tariff lines respectively. Indonesia removed more tariffs for electrical machinery and transport equipment, around 24.9% and 29.2% of the total tariff lines respectively. There are no MFN tariffs applied for Indonesian potential products for export such as coffee and tea. Based on the aforementioned data, we know that Indonesia has a higher tariff imposed for imports based on duty ranges and product groups.

4.2. Tariff Barriers on Trade between EU (including V4) and Indonesia

This part will further discuss the tariff structure of the EU towards Indonesian products and vice versa. This part will try to compare the types and rates of EU's tariffs imposed towards Indonesian products and vice versa. The tariff comparison data used is obtained from the results of a study on the impact of trade agreements between the European Union and Indonesia by Damuri, Atje, and Soedjito.[95]

4.2.1. European Tariff Structure for Indonesian Products

In general, tariff barriers are a way to restrict trade using trade barriers in the form of a tariff. The EU imposes three types of tariff structures on its trading partner countries. The first type of tariff is the MFN tariff rate used for all WTO members. The second tariff is the GSPs for developing countries and less developed countries. The last tariff, namely NAV, is a preferential reciprocal rate based on external trade agreements. Indonesian products currently qualify for either MFN tariff rates or lower GSP tariffs, depending on the development of the origin sector. Chart 4.1. illustrates the average MFN and GSP tariff rates in 2012 in the EU for various product groups and information on the number of tariff lines subject to NAV tariffs. Certain characteristics can be observed in relation to the EU tariff list. First, the average magnitude of the EU MFN seems to be quite high for various agricultural and food products, and for other sectors such as textiles and footwear. Some of these products are also produced competitively and exported by Indonesia.[96]

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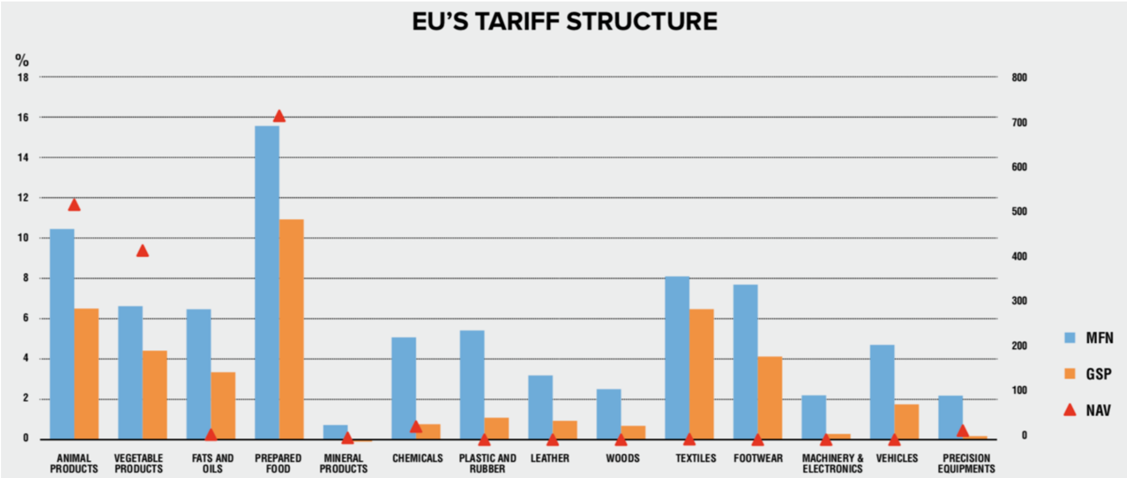
[95] Y. R. Damuri, R. Atje, and A. Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia* (Jakarta: CSIS Pub, 2015).
[96] Damuri, Atje, and Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia*, 42.

Chart 4.3. European Union Tariff Structure in 2012



Note: Average rates are shown on the left axis, while the number of tariff lines that are charged by the NAV are on the right.
Source: TARIC database (https://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en), accessed March 25, 2020.

Second, NAV rates are still quite common in the EU tariff structure, with agricultural products being one of the goods which are mostly subject to these higher tariffs. NAV tariffs are relatively more restricted to cheaper goods of lower quality because they are applied based on various aspects of imported goods in addition to price and value, such as weight, length, or a number of units. Third, the GSP tariff is much lower than the MFN tariff. For goods related to agriculture, the average tariff level received by a country in the GSP programme is 40% lower compared to countries using MFN tariff. For instance, the entry tariff for Indonesian coffee products imposed by the European Union is between 2% to 4%.

The amount of GSP tariff for various goods also becomes much lower. This gives a large benefit to Indonesian products that get preferential tariffs and also implies that Indonesian products might lose most of these benefits when Indonesia no longer follows the GSP framework. To understand the effect of the EU tariff structure on Indonesia's exports to the EU, we can examine the information available in Table 4.3., which shows that Indonesia's exports to the EU revolve around mineral products or primary or resource-rich products such as fats and oils. We can also see that some of these products have a high EU market share.[97]

[97] Damuri, Atje, and Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia*, 43.

Table 4.3. EU's Imports from Indonesia (Average in 2010-2012, Million Euros)

HS SECTION	DESCRIPTION	INDONESIA		WORLD	
		GSP (% OF TOTAL)	TOTAL IMPORT	GSP (% OF TOTAL)	TOTAL IMPORT
1	ANIMAL PRODUCTS	91.62	184.05	66.14	20,685.91
2	VEGETABLE PRODUCTS	2.29	453.53	31.29	42,189.38
3	FATS AND OILS	0.00	2,316.86	37.01	8,426.64
4	PREPARED FOODSTUFFS	57.72	621.90	39.40	38,032.42
5	MINERAL PRODUCTS	2.74	1,294.13	4.58	483,594.33
6	CHEMICAL PRODUCTS	89.21	1,449.76	19.37	136,965.18
7	PLASTIC AND RUBBER	27.78	1,566.34	37.95	46,317.96
8	LEATHER	89.73	87.44	32.51	12,748.95
9	WOOD PRODUCTS	26.70	499.48	15.28	10,362.76
10	PULP OF WOODS	0.00	205.67	0.00	15,944.71
11	TEXTILES AND TEXTILE ARTICLES	98.02	1,611.73	51.54	89,279.15
12	FOOTWEAR	98.80	1,102.58	31.40	17,524.57
13	ARTICLES OF STONE	74.22	100.62	27.68	10,859.81
14	PEARLS AND PRECIOUS STONE	80.89	47.02	3.22	72,761.63
15	ARTICLES OF BASE METAL	12.95	600.73	23.93	96,013.96
16	MACHINERY AND ELECTRICAL	59.72	1,838.44	12.81	351,533.04
17	VEHICLES	91.21	146.81	24.25	95,990.39
18	PRECISION EQUIPMENT	83.18	279.70	14.57	55,272.96
19	ARMS AND AMMUNITION	0.00	0.01	15.27	1,070.35
20	MISCELLANEOUS MANUFACTURES	32.31	678.77	10.31	37,078.79
21	WORKS OF ART, ANTIQUITIES...	0.00	3.00	0.00	3,012.32
	TOTAL	**46.77**	**15,088.60**	**16.84**	**1,645,665.22**

Source: Eurostat, Comext database (http://epp.eurostat.ec.europa.eu/newxtweb/) accessed March 25, 2020.

Approximately 50% of EU imports from Indonesia enter the market through the use of the GSP programme. Textiles and footwear products, along with machinery and electronic equipment are among the products that mostly depend on GSP facilities. Approximately 98% of these products originating from Indonesia are subject to lower tariffs as part of the GSP programme. The data demonstrates that lower tariff levels in the GSP programme remain one of the substantial aspects in determining the performance of Indonesian exports in the EU market and in providing extensive access to these markets.

In table 4.4., we can see how different levels of tariffs affect the EU's imports from Indonesia. The data compares the trade volume of each tariff level classification from 2001 to 2012. Approximately 58% of EU imports from Indonesia in 2012 were in the category of duty-free imports (not subject to tariffs), which was a significant 45% increase in products that were duty-free in 2001. In addition, it is clear that a small portion of imports was subject to higher tariff levels in 2012. Only about 6% of imports from Indonesia are subject to tariffs higher than 10%, while in 2001 they were 20%.[98]

[98] Damuri, Atje, and Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia*, 44.

Table 4.4. EU Imports from Indonesia Based on Tariffs (Euro Million)

EU's Imports from Indonesia Based on Tariff Rates						
Level of Tariff	**2001**			**2012**		
	GSP (% Total)	**MFN (% Total)**	**Total**	**GSP (% Total)**	**MFN (% Total)**	**Total**
0	21.52	78.48	4,946.71	35.75	64.25	8,976.94
1-5	67.91	32.09	1,492.71	67.10	32.90	2,502.11
5-10	51.10	48.90	2,102.47	77.58	22.42	2,219.80
10-20	82.61	17.39	2,050.46	64.96	35.04	833.54
20-40	-	100.00	14.90	94.46	5.54	57.96
>40	100.00	-	0.02	100.00	-	0.13
NAV Tariff	81.03	18.97	90.34	91.22	8.78	101.21
Total	45.99	54.01	10,697.60	49.68	50.32	14,691.71

Source: Eurostat, Comext database and TARIC database (https://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en, http://epp.eurostat.ec.europa.eu/newxtweb/) accessed March 25, 2020.

These changes are mostly because of the comprehensive use of GSPs for lower tariff levels. Since 2012, approximately 36% of duty-free imports from Indonesia were included in the GSP facility, whereas in 2001, it was only around 22%. Most of the imports from Indonesia also get lower tariffs, which are lower than 10% because of the GSP facility. Another characteristic found is that only a small proportion of imports from Indonesia can be attributed to high tariff levels or high NAV tariffs. This shows that high tariff rates do not affect goods.[99]

In accordance with the GSP tariff, import duties on finished goods from Indonesia to the European Union are still quite high at around 5-20%. They are widely imposed on several commodities such as wood, textiles, and shoes. As for shoes and textiles, Europe imposes an import duty of 7-12%, even though the European Union has eliminated import duties on the same commodities from Vietnam, Bangladesh, and some other exporting countries.[100]

4.2.2. Indonesian Tariff Structure for EU Products

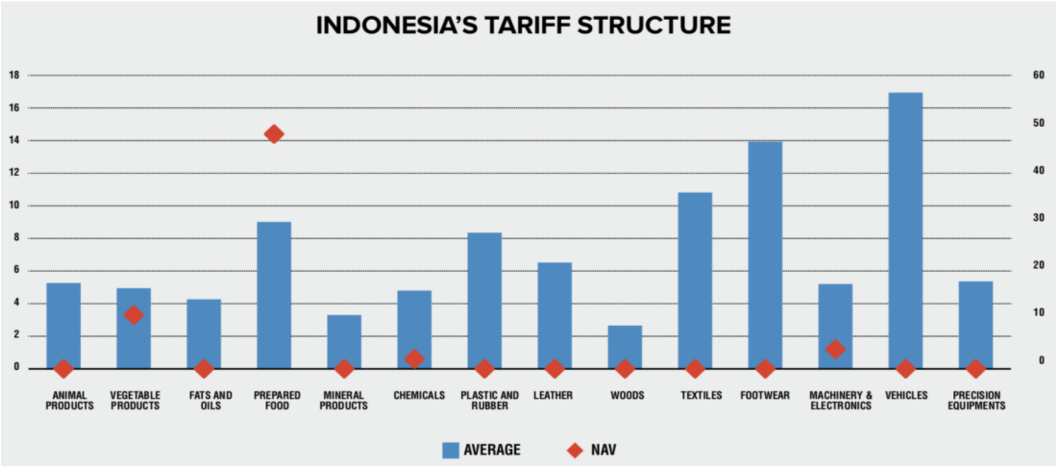
Indonesia's tariff structure is not too complicated when compared to the EU tariff structure. Indonesia applies MFN tariff levels for non-FTA partners, and in contrast to European tariff arrangements, higher tariff levels are directed towards finished non-agricultural products. Chart 4.2. simply illustrates the Indonesian average tariff level for various imported products. The highest rates are for vehicle products, especially motor

[99] Damuri, Atje, and Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia*, 44-45.

[100] Kementerian Perindustrian Indonesia, "Tarif Bea Masuk Eropa Dikeluhkan."

vehicles. The highest tariff for these product groups can reach up to 40 percent. Other product groups with high tariff levels include other finished goods such as textiles and footwear. Although the average tariff on agricultural goods is quite low at approximately 5 percent, several products are subject to NAV tariffs. For instance, in the vegetable products sector, 11 tariff lines are subject to NAV tariff levels. Most of these special tariff rates are in processed foods (48 tariff lines), although, unlike in the EU, NAV rates are not commonly used in Indonesia's tariff structure.[101]

Chart 4.2. Indonesia's Tariff Structure in 2012



Source: Buku Tarif Kepabeanan Indonesia (http://www.beacukai.go.id/btki.html), accessed March 20, 2020.

Table 4.5. gives information on products imported by Indonesia from the EU and the level of tariffs applicable to these products. Most imports from Europe were duty-free imports or subject to tariffs of less than 5 percent. As previously mentioned, machinery and electrical equipment make up the largest share of Indonesia's imports from the EU. Approximately 4 percent of these products were subject to tariffs greater than 10 percent.

Table 4.5. Indonesia's Imports from EU Countries Based on Tariffs (Million Euros)

Indonesia's Imports from EU Countries Based on Tariff Rates			
Level of Tariff	**2001**	**2007**	**2012**
0	49.24	56.55	34.75
1-5	33.71	30.35	51.83
5-10	7.22	7.19	9.01
10-20	3.77	5.36	2.79
20-40	0.06	0.09	1.56
>40	0.01	0.44	0.00
NAV Tariff	0.00	0.01	0.06
Total	4,427.33	10,558.03	14,134.18

Source: BBMI Trade Database, BTKI, BPS (http://www.beacukai.go.id/btki.html), accessed March 20, 2020.

[101] Damuri, Atje, and Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia*, 45.

This Chart is smaller than in the past, which implies a change in EU exports and a declining trend in Indonesia's tariff rates. Accordingly, most NAV tariffs are applied to products related to agriculture, which are not the EU's main export. Thus, the share of imports subject to this type of tariff is still very small. [102]

4.3. Non-tariff Barriers

Non-tariff Barriers to trade (NTBs) or sometimes referred to Non-tariff measures (NTMs) are trade barriers that limit the import or export of goods or services through procedures other than simple tariffs. NTBs include import licences, customs valuation rules, pre-shipment inspections, rules of origin, quotas, limits, and exchange rate policies.[103] The NTMs are important instruments that can be used by national regulators, producers, and consumers to ensure product quality and to provide protection against threats to human and animal health and safety or the environment. Thus, the regulation also has an impact on the intensity of trade between countries.

As tariff barriers were increasingly reduced through multilateral negotiations under the GATT, countries began increasing the use of NTMs. NTMs were commonly used in agriculture. NTMs had come out of the discipline of GATT (for example price support measures, export subsidies), for import quotas of other sectors, licensing requirements, price management, and so-called voluntary export restraints are widespread under GATT.

When viewed from the perspective of mercantilism, NTMs as a form of government intervention are largely considered to have protectionist intentions, thus, they are generally referred to as non-tariff barriers. It is also widely accepted that NTMs are increasingly playing a role in replacing tariff protections because the average level of tariffs has fallen sharply. In this case, the WTO requires its members to adopt articles related to the WTO Agreement on Technical Barriers to Trade Agreements, which requires that regulations, standards, testing, and certification procedures do not create unnecessary obstacles to trade.[104]

In general, the impact of non-tariff measures and regulations on trade comes from three sources. First is the availability of information about regulations, and their ease of

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[102] Damuri, Atje, and Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia*, 46.

[103] WTO, "Non-tariff barriers: red tape, etc," accessed April 1, 2020. https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm9_e.htm.

[104] UNCTAD, *Non-Tariff Measures: Economic Assessment and Policy Options for Development*, by Jaime de Melo and Alessandro Nicita, UNCTAD/DITC/TAB/2017/2, Geneva: UNCTAD, 2018, accessed April 1, 2020. https://unctad.org/en/PublicationsLibrary/ditctab2018d3_en.pdf.

understanding. Exporters from both trading countries often find it difficult to find the latest regulations on their export products - a result that becomes more problematic in cases where regulations change very often. In addition, because regulations are often written in pedantic language and include several legal clauses, there is a need for more effort from exporters to translate these regulations into relevant information. Mistakes caused by misunderstandings of foreign laws often lead to additional operational costs. In the worst-case scenario, it can also result in the rejection of exports trying to enter the market.[105]

The second way in which NTM impacts trade is by creating compliance costs with related technical regulations. The company reacts to domestic and foreign technical regulations in various ways. When exporters decide to comply to these requirements, they usually use additional resources to improve the quality of products that require additional investment and workers for production. This, in turn, requires additional operating and overhead costs, which contribute to the increase in product prices. The obligation to fulfil this requirement can prevent producers from exporting their products because they can choose not to take additional costs from this technical regulation.[106]

The third source of impact on trade is the cost of testing goods before they are sent overseas to comply to foreign technical regulations. Measures of conformity assessment, including activities such as certification, testing, and inspection are important ways to ensure that exported goods follow the prescribed regulations. However, with the increasing importance of international trade, differences in conformity assessment requirements on global markets can function as technical barriers to trade, because they require producers to complete different tests depending on the market they wish to enter.[107]

In the case of the EU, its import licensing system is based on the premise that no import licences are required except for products that have a certain certificate of origin, which still refers to the quantitative restriction article and for safeguards against adverse imports. The Commission implemented this surveillance system intending to increase the transparency of trends in imports of certain products, but without limiting the access to

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[105] Damuri, Atje, and Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia*, 56.
[106] Ibid.
[107]Damuri, Atje, and Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia*, 57.

EU markets. On this basis, statistical control and further control of information on the origin of the product can be carried out.[108]

There are some exceptions, as the European Union does not impose quantitative restrictions on imports originating from WTO members and countries that have trade cooperation with the European Union. The European Union imposes import restrictions only on products that have a security and environment reasons. Another example of import restriction due to environmental reasons is surveillance and restrictions originating from the International Trade Convention for Endangered Wild Fauna and Flora Species.[109]

In the case of Indonesia, there are regulations regarding the Indonesian National Standard (SNI) which states that it is mandatory to apply SNI to 66 upgraded products, such as electronic products, furniture, metals, basic chemicals, and downstream products. SNI covers technical regulations, as well as certification and laboratory testing that needs to be applied to imported and local products. Although the purpose of SNI is to protect consumers and improve the quality of Indonesian products, there is also an interest in using SNI as a defence against imported products.[110]

This national standard system has increased the costs of compliance with new regulations, as well as the costs of obtaining proof of conformity through testing and certification for domestic producers and importers. However, this increase in expenditure is even greater for Indonesian producers, because producers of exports need to comply with national standards in addition to international standards, even though the two are often very different. In cases where SNI requirements are in line with other standards, the cost of conformity assessment still exists because the national standard system requires additional tests to be carried out. This increases the price of exported products and reduces the competitiveness of Indonesian products in the international market.[111]

To improve the competitiveness of exported products, Indonesia needs to ensure that its national technical regulations comply with internationally accepted standards. Policy makers should avoid creating national standards that are too different from

[108] Kementerian Perdagangan Republik Indonesia, "Laporan Akhir Analisis Pengembangan Pasar Uni Eropa," 27. Accessed April 2, 2020. http://bppp.kemendag.go.id/media_content/2017/08/Analisis_Pengembangan_Pasar_Uni_Eropa.pdf.

[109] Damuri, Atje, and Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia*, 57.

[110] Ibid.

[111] Damuri, Atje, and Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia*, 58.

international standards, especially if they only do so to build barriers to imported goods. The CEPA between Indonesia and the EU provides opportunities for the two entities to work together on technical regulations and other non-tariff measures. With the CEPA it is hoped that it will be able to start with other arrangements, such as a third party or first party conformity assessments. Specifically, Indonesia can follow EU standards and regulations that are usually accepted in many other market destinations.

Besides the trade costs imposed by the tariff, the trade costs are also imposed by the environment. Trade costs imposed by the environment include geographic distance, language, and cultural differences. The long-distance between Indonesia and the V4 certainly increases transportation and logistics costs in trade between them. Not to mention the costs are exacerbated by existing trade barriers because the two entities do not cooperate in the framework of the FTA which can eliminate trade barriers between them. Indonesia's distant geographical position is also an obstacle for Indonesia's export performance to reach V4 market share. The high export costs due to the long-distance caused Indonesia to still not be able to fulfil all requests in V4. For example, there is an increase in demand for coffee products in the V4. Indonesian exports have not been able to meet all needs in Hungary.

Similarly, total direct trade between Indonesia and Slovakia is also influenced by geographical location. For example, Arabica coffee from Indonesia circulating in Slovakia is obtained from importers/distributors located in Hungary because of the shorter distances. In Slovakia, coffee is marketed as a sole and mixed origin, in collaboration with several cafes in the touristic areas of Slovakia.

Moreover, given the trade structure of each V4 country and Indonesia, in fact, the actual trade between the two entities is complementary. However, given the far geographical conditions that cause high export costs, the volume of direct trade between the V4 and Indonesia is still relatively small. Regarding the use of ports as a loading and unloading place, Indonesia is still very dependent on ports that have long been used as entry points for Indonesian exports to Europe such as Rotterdam, Hamburg, Trieste, and Rijeka. Although the majority of the Visegrad countries are land-locked countries, Poland also has a port in the city of Gdansk that has the potential to be a hub port for Indonesian exports.

The use of different languages is also one of the obstacles faced by exporters. As explained earlier, this is related to some export product regulations often written in a convoluted manner and includes several legal clauses, so that more exporters need to translate this regulation into relevant information. Mistakes caused by misunderstandings of foreign laws in export destination countries often lead to additional operational costs or in the worst-case scenario the refusal of exports trying to enter the market.[112]

[112] Damuri, Atje, and Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia*, 56.

Chapter V. Analysis of the Role of Economic Diplomacy towards Trade Flows between the V4 - Indonesia and Their Potential in Trade

In the final part, the analysis will be conducted to answer the main research question. The chapter will start by discussing the levels of tariff and non-tariff barriers and proposed methods to eliminate them by using comparative analysis to find out the role of economic diplomacy towards trade flows between the V4 and Indonesia. In addition, it will incorporate the strengths, weaknesses, opportunities, and threats (SWOT) analysis. Thus, this study will be able to compare the potential of each V4 as an untapped market for Indonesia.

5.1. The proposed method to eliminate the tariff barriers

The role of economic diplomacy in trade flows between the V4 and Indonesia can be done in two ways. As previously mentioned according to Okano-Heijmans, there are two types of economic diplomacy. They are commercial diplomacy and trade diplomacy. In accordance with tariff barriers, trade diplomacy has a huge role in influencing trade flows between the V4 and Indonesia. This is because trade diplomacy encapsulates free trade agreements and economic partnership agreements. Both FTAs and EPAs directly affect trade flows by removing tariff barriers.

To date, Indonesian products meet the requirements for MFN rates and lower GSP tariffs, depending on the development of the origin sector. Nonetheless, the average tariff level of EU MFN seems to be quite high for various agricultural and food products, as well as in certain sectors such as textiles and footwear. Likewise, NAV tariffs are still quite prevalent in the EU tariff structure, with agricultural products being one of the goods most subject to this higher tariff.

Although Indonesia currently still benefits, around 50% of Indonesia’s total imports are subject to GSP tariffs, the tariff rates are on average around 40% lower than MFN tariffs. However, Indonesia will soon lose the privilege of this GSP tariff, so that the perceived benefits of preferential tariffs on most of its export products will end soon.

In addition, the European Union as a destination market for Indonesian exports also imposes quite high import duties in several sectors such as in the textile sector. Indonesian products are subject to 7-12% import duties. Meanwhile, other exporter countries such as Vietnam and Bangladesh are not subject to import duties.

In this case, the I-EU CEPA as part of trade diplomacy efforts is seen as one of the most ambitious and comprehensive trade agreements ever undertaken by Indonesia. This agreement will eliminate tariffs on 95% of the total trade in goods between the two economies. Thus, through the CEPA cooperation framework between Indonesia and the European Union, it is possible for Indonesia and the V4 to increase their mutual trade turnover.

The main contribution related to the existence of CEPA will be felt through efforts to increase trade between Indonesia and the European Union. The focus of the agreement on trade liberalisation is to increase the intensity of trade relations by reducing trade barriers that facilitate trade between the two entities. Indonesia can benefit from the direct impact of increasing access to EU markets including the V4 countries, especially after the GSP tariff reforms applied by the European Union later. This shows that Indonesia must move away from this framework after achieving middle to upper-income status. When Indonesia graduates from the GSP programme without concluding a CEPA agreement that guarantees lower tariffs, its export competitiveness to EU countries will diminish due to reduced preference.

One method that can be used to see the direct impact of reducing tariffs on EU imports from Indonesia is to use the trade creation method based on the partial equilibrium trade model approach by Laird and Yeats.[113] Possible impacts of trade creation if MFN and GSP tariffs for all products are immediately reduced to zero include:

a. products that have benefited from significant GSP rates will be affected less;
b. products that receive lower GSP rates or do not receive benefits from these tariffs will be affected more.

[113] Sam Laird and Alexander Yeats. "The UNCTAD trade policy simulation model." In *United Nations Conference on Trade and Development*, vol. 19. 1986. https://wits.worldbank.org/data/public/SMARTMethodology.pdf.

Table 4.6. Direct Tariffs Elimination on EU's Imports from Indonesia (2020-2012, in million euros, current exchange rate)

PRODUCTS	IMPORTS FROM INDONESIA (MILLION EURO)	CHANGE (% OF IMPORTS)	TRADE CREATION (% OF CHANGE)	TOP 10 (% OF CHANGE)
ANIMAL PRODUCTS	184.05	10.90	53.55	53.52
VEGETABLE PRODUCTS	453.53	0.16	56.19	-
FATS AND OILS	2,316.86	6.05	63.16	63.48
PREPARED FOODSTUFFS	621.90	10.19	43.12	43.70
MINERAL PRODUCTS	1,294.13	0.12	51.08	99.99
CHEMICAL PRODUCTS	1,449.76	1.76	53.08	40.68
PLASTIC AND RUBBER	1,566.34	0.38	39.94	19.70
LEATHER	87.44	13.81	90.32	77.35
WOOD PRODUCTS	499.48	0.87	55.31	59.32
PULP OF WOODS	205.67	-	-	-
TEXTILES AND TEXTILE ARTICLES	1,611.73	19.16	47.57	29.12
FOOTWEAR	1,102.58	9.61	49.58	45.01
ARTICLES OF STONE	100.62	9.05	48.01	69.47
PEARLS AND PRECIOUS STONE	47.02	0.00	59.26	100.00
ARTICLES OF BASE METAL	600.73	0.20	54.80	-
MACHINERY AND ELECTRICAL	1,838.44	4.32	52.09	94.14
TRANSPORT	146.81	15.80	69.31	98.67
PRECISION EQUIPMENTS	279.70	0.12	41.48	-
ARMS AND AMMUNITION	-	-	-	-
MISCELLANEOUS MANUFACTURED	678.77	0.16	48.05	62.51
WORKS OF ART, ANTIQUITIES...	3.00	-	-	-
TOTAL	**15,088.58**	**802.77**	**52.26**	**49.17**

Source: Yose Rizal Damuri, Raymond Atje, and Audrey Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia* (Jakarta: CSIS Pub, 2015), 49.

Table 4.6. shows that the abolition of tariffs on the average import value between 2010 and 2012 caused the value of EU imports from Indonesia to increase by 800 million euros. It is equivalent to about 5 percent of the value of EU imports from Indonesia. The products that get the highest profit are the textiles and textile articles with an amount equivalent to 300 million euros or 19 percent of the current import value, followed by animal products, prepared foodstuffs, leather, and transport. In addition, several other products also experienced a significant increase in trade volume after the creation of new imports by eliminating tariffs such as footwear, animal and vegetable oils, machinery and electrical equipment, and foodstuffs.[114]

Using the same method, we can see the impact of reducing import tariffs for Indonesia from the EU.

[114] Damuri, Atje, and Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia*, 49.

Table 4.7. Direct Tariffs Elimination on Indonesia's Imports from the EU (2020-2012, in million USD, current exchange rate)

	PRODUCTS	IMPORTS FROM EU (MILLION US$)	CHANGE (% OF IMPORTS)	TRADE CREATION (% OF CHANGE)	TOP 10 (% OF CHANGE)
1	ANIMAL PRODUCTS	266.43	8.98	51.59	85.09
2	VEGETABLE PRODUCTS	107.15	14.34	67.35	35.96
3	FATS AND OILS	16.21	29.98	90.80	81.44
4	PREPARED FOODSTUFFS	224.82	19.94	47.25	10.62
5	MINERAL PRODUCTS	148.78	5.00	51.99	40.98
6	CHEMICAL PRODUCTS	1,642.80	9.06	48.00	22.98
7	PLASTIC AND RUBBER	497.14	14.14	40.70	19.54
8	LEATHER	77.20	25.27	87.26	89.87
9	WOOD PRODUCTS	29.03	5.12	73.35	18.17
10	PULP OF WOODS	684.05	6.65	-	-
11	TEXTILES AND TEXTILE ARTICLES	211.25	58.49	87.49	61.35
12	FOOTWEAR	12.54	41.75	76.15	81.02
13	ARTICLES OF STONE	65.85	21.16	69.71	25.49
14	PEARLS AND PRECIOUS STONE	15.62	6.79	65.41	95.85
15	ARTICLES OF BASE METAL	843.25	11.44	47.28	16.44
16	MACHINERY AND ELECTRICAL	4,575.18	8.96	52.02	10.02
17	TRANSPORT	1,412.29	38.05	79.73	20.53
18	PRECISION EQUIPMENTS	260.36	8.54	41.84	33.68
19	ARMS AND AMMUNITION	-	-	-	-
20	MISCELLANEOUS MANUFACTURED	47.25	24.74	58.85	16.58
21	WORKS OF ART, ANTIQUITIES...	0.29	7.22	-	-
	TOTAL	**11,137.50**	**1,603.47**	**62.13**	**22.74**

Source: Yose Rizal Damuri, Raymond Atje, and Audrey Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia* (Jakarta: CSIS Pub, 2015), 55.

Table 4.7. illustrates the impact of removing tariffs directly on Indonesia's imports from the EU. The average EU export to Indonesia might increase by around 14 percent as a result of the abolition of tariffs. The transportation equipment sector gained the most profit by increasing the value of exports worth 540 million USD or equivalent to 38 percent of the current level of EU exports to Indonesia. In addition, machinery and electricity products will also increase significantly by 400 million USD. The elimination of tariffs on the top ten products is likely to produce significant benefits for the European Union.[115]

Furthermore, there are also indirect impacts that may benefit Indonesia by reducing trade barriers to products imported from the European Union through the CEPA framework. Indonesian producers can benefit from increased availability and reduction of intermediate input costs and high-quality capital goods, which will then reduce production costs and improve industrial performance. This ultimately increases the

[115] Damuri, Atje, and Soedjito, *Kajian Tentang Dampak Perjanjian Kemitraan Ekonomi Komprehensif (CEPA) Uni Eropa-Indonesia*, 55.

competitiveness of Indonesian products. These benefits can be enormous given that the two economies are at different levels of economic development. Thus, instead of competing with each other, the two economies will achieve greater complementarity.

5.2. The proposed method to eliminate the non-tariff barriers

In accordance with non-tariff barriers, trade diplomacy through the framework of a comprehensive economic partnership agreement also has an important role. Considering one of the aims is to eliminate the non-tariff barrier such as import quotas, licensing rules, and limits. Besides that, commercial diplomacy also might play a role in influencing the trade flows between V4 and Indonesia. Trade promotion as a form of commercial diplomacy can affect trade flows between the two entities. Countries can promote their products in export destination countries including V4 and Indonesia in the trade shows or trade exhibitions.

Currently, there are many trade exhibitions that are annually carried out in Indonesia and the V4 such as the Trade Expo Indonesia in Indonesia, Salima Trade Fair in Czechia, Budapest Hungexpo in Hungary, Polagra Fair in Poland, and Incheba Expo in Slovakia. Countries can use the event to provide and exchange information about the regulations in their countries related to various rules concerning obstacles in carrying out exports and imports. For example, national standards that are applied in their respective countries and steps that can be taken to overcome them.

For instance, at the Trade Expo Indonesia (TEI) 2019, several Indonesian business transactions between Indonesian companies and countries in the V4 were recorded. This includes 35 million euros in the hydropower sector with Hungary, 1 million US dollars in the coffee sector with Slovakia, and 500 thousand US dollars in the palm oil product sector with Hungary. Furthermore, at the Indonesia-V4 Business Forum, Indonesia signed eight contracts to send skilled workers within 6 Indonesian-Polish service, industrial, and trade companies. These transactions showed that trade promotion as a form of commercial diplomacy can affect trade flows between the two entities.

Furthermore, the CEPA between Indonesia and the EU might provide opportunities for the two countries to work together on technical regulations and other non-tariff measures. This cooperation can be started with arrangements related to standardisation equalisation such as third party or first party conformity assessment. More specifically, Indonesia can follow EU standards and regulations that are usually accepted in many other market destinations. In addition, steps that Indonesia can take concerning reducing non-tariff trade ties can be in the form of simplifying trade regulations. Indonesia can start by simplifying permit regulations related to exports, imports, and simplifying procedures for importing and importing instruments and exports.

5.3. Strength Weakness Opportunity Threat (SWOT) Analysis for the Potential of Indonesia and the V4 in Trade

This part will compare the opportunities of each V4 country as an untapped market for Indonesia. Based on the aforementioned findings, it will further discuss their strengths, weaknesses, opportunities, and threats. Accordingly, this analysis will show several sectors and commodities that are seen as having the most potential for the mutual turnover between Indonesia and the V4. This SWOT analysis can contribute to formulating a more effective and solution-oriented trade policy and agreement in both a multilateral as well as a bilateral format.

5.3.1. Strength

In this part, the strengths of Indonesia and the V4 trade cooperation will be discussed. This part will discuss some commodities that are seen as the most potential commodities for Indonesian exports to the V4. Several commodities have strong competitiveness index values such as coffee at 3.95, coconut oil at 7.08, rubber at 11.48, and footwear at 5.53. This means that Indonesia has a comparative advantage above the world average and these commodities have strong competitiveness. Accordingly, Indonesia is the largest producer for coconut oil and one of the largest producers for rubber, textiles, footwear, and coffee. Moreover, Indonesia has a bargaining position in ASEAN because of its large market size with a population of 264 million people. Thus, it makes it appealing as a market compared to its competitors in ASEAN.

The V4 has a bargaining position with the fastest economic growth rates of around 4.1%. In addition, the V4 has a high level of economic development. It can be seen through their structure of trade both in exports and imports that are heavily dominated by manufacturing. Besides that, their level of trade openness as a percentage of GDP is also high with Slovakia has the highest score of 190% and the lowest score of 100% for Poland. These high scores show the V4 is heavily dependent on international trade.

5.3.2. Weakness

Although the trade turnover between Indonesia and the V4 has developed dynamically throughout the last decade, they have remained marginal partners. One of the reasons is because the V4 shares a similar weakness regarding its geographical location that is relatively far from Indonesia. It causes a high cost in terms of logistics and transportation. In addition, language and cultural differences are also seen as an obstacle for Indonesian exporters and vice versa.

Accordingly, the weaknesses are also visible in their participation in global value chains. V4 countries are very strongly linked to Germany. V4 produces a final product or the pre-final product and exports this product to Germany, whereas Indonesia is strongly linked to China and other non-EU countries. Indonesia produces the final product or the pre-final product and exports this product to other Asian countries such as China, Singapore, and South Korea.

Based on the aforementioned finding, it is obvious that mostly the main export and import commodities of Indonesia and the V4 are not met except for certain sectors, such as crude petroleum and cars that are also the Visegrad countries' main import commodities. However, for these products, Indonesia has a lower competitiveness index compared to its competitors. Most of the main import commodities of the V4 are highly concentrated in certain sectors such as vehicle parts, office machine parts, broadcasting equipment, and packaged medicines, whereas Indonesia's main export commodities are concentrated in sectors such as coal briquettes, palm oil, and petroleum gas.

Indonesia mainly exports raw materials or primary products to its trade partner, however, Indonesian exports to the V4 is dominated by manufacturing products such as textiles and footwear. To date, the market in the V4 is dominated by Vietnamese products. For footwear products, Indonesia has a lower RCA value of 5.53 compared to its competitor Vietnam with an RCA value of 10.49.[116] Indonesian coffee has an average RCA index value of 3.95 in comparison to the average index of coffee from Vietnam and Colombia, which are 20.52 and 30.96 respectively.[117] Indonesian coconut oil has a lower RCA value of 7.08 compared to its competitor, the Philippines, with an RCA value of 8.33.[118] Thus, with CEPA, Indonesian products can become more competitive with this

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[116] Kementerian Perdagangan Republik Indonesia, "Laporan Analisis Daya Saing Indonesia dan ASEAN Lainnya di Pasar Produk Utama Indonesia."
[117] Jamil, "Daya Saing Perdagangan Kopi Indonesia di Pasar Global," 26–35.
[118] Heriyanto, "Indonesian Coconut Competitiveness In International Markets," 46–50.

larger market access, while increasing the competitiveness of Indonesian products as well as the complementarity of each product.

Furthermore, currently, the EU is also trying to conclude other trade agreements with its other partner countries such as Myanmar, the Philippines, Malaysia, and Thailand. This is also a weakness for Indonesia if it does not immediately finish negotiating its trade agreement where trade diversion will occur.

5.3.3. Opportunity

If the new agreement is concluded it will help Indonesia to have more access to the EU market including V4. Indonesian products will get the same tariff as other competitor countries such as Vietnam and Singapore. In addition, Indonesia will benefit from the lower tariffs imposed by the EU for commodities such as natural rubber, compared to Thailand as the largest producer that has retained trade agreement status since 2014. Thus, the negotiation of CEPA will bring advantages for Indonesia in market share and market access to the EU including to the V4. Accordingly, there are also still some opportunities during the trade exhibition and expo in Indonesia and the V4 such as Trade Expo Indonesia in Indonesia, Salima Trade Fair in Czechia, Budapest Hungexpo in Hungary, Polagra Fair in Poland, and Incheba Expo in Slovakia.

The fact that the V4 shares similar interest for coffee products given the demand and the market share that are still wide open, they are seen as the opportunities for Indonesia. Besides that, the demand for Indonesian commodities such as coconut oil and coconut-based products has opened an opportunity for Indonesian products in Hungary. In addition, coconut oil and natural rubber as Indonesia's main export commodities continue to show an increase in demand in the V4. In the case of Poland, there are some opportunities for Indonesia in pharmaceutical and food products. There are also opportunities for market share in sectors such as textiles and leather footwear in Poland and Slovakia.

The demand for textiles and leather footwear in the V4 also brings opportunities for Indonesia as the third and fourth-largest producers in the world.[119] Currently, Indonesia also ranks fourth among footwear manufacturers with 1.272 million pairs of shoes or 5.3% of the world's production. In addition, the average price of Indonesian footwear

[119] The Observatory of Economic Complexity, "Leather Footwear."

exports still ranks fifth in the world with a value of 16.70 USD, which shows that Indonesia produces footwear with competitive prices and good quality.[120]

Indonesia as the second-largest producer of rubber after Thailand opens an opportunity for Indonesia in the V4, especially in the Czech Republic. In addition, if Indonesia can conclude the trade agreement with the EU, there might be a trade diversion for the market share with Thailand as the largest producers.[121] Moreover, Indonesian rubber products have a higher RCA value of 11.48 compared to its competitors such as Thailand and Malaysia with RCA values of 7.11 and 6.09 respectively.[122] Besides rubber, textile footwear, leather footwear, and rubber footwear, some products that need more promotion and have seen potential in the Czech Republic are sugar, dried fruit, cocoa powder, spices, cable products, mineral products, cosmetics, fast food noodles, coffee, batik.[123]

In the case of Indonesia and Hungary, some products that need more promotion are coffee, exotic spices, coconut butter, palm oil, and various organic foods. Other important export items are handmade ornaments made of leather and other materials, rubber and textile goods, rattan furniture, beauty products, and coconut-based products. Indonesia, as the largest coconut oil-producing country in the world, has the advantage to gain a greater market share in the V4.[124] Currently, market demand in Hungary continues to increase. This is marked by the continued increase in the value of coconut oil exports to Hungary.

In the case of Indonesia and Slovakia, besides natural rubber, textiles, and leather footwear, coffee has also become a potential export commodity that needs more promotion. Indonesia as the seventh-largest producer of coffee also brings opportunity for increased demand in the V4.[125] In the case of Indonesia and Poland, besides rubber, textiles, and leather footwear, some products that need more promotion are instant noodles, coffee candy, batik, furniture, coffee, and palm. In accordance with the trade costs imposed by the environment such as geographic distance, Poland, by not being a land-locked country, has an opportunity to become a hub country for the V4.

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[120] Kementerian Perindustrian Republik Indonesia, "Berorientasi Ekspor, Industri Tekstil dan Alas Kaki Sumbang USD 19 Miliar."
[121] The Observatory of Economic Complexity, "Rubber."
[101] Kementerian Perdagangan Republik Indonesia, "Laporan Analisis Daya Saing Indonesia dan ASEAN Lainnya di Pasar Produk Utama Indonesia."
[123]CNN Indonesia, "Menilik Peluang Ekspor Kopi Indonesia ke Republik Ceko."
[124]The Observatory of Economic Complexity, "Coconut Oil."
[125]The Observatory of Economic Complexity, "Coffee."

Furthermore, given the relatively low trade turnover between the V4 and Indonesia, it is difficult to discuss the trend because the trade is almost non-existent. Perhaps with the trade agreement, the trade pattern between the V4 and Indonesia will become more similar. Thus, there will be a shift towards similar and bigger trade between Indonesia and the V4 especially for the aforementioned sectors such as coffee, rubber, textiles, and leather footwear.

5.3.4. Threat

One of the biggest threats for Indonesia is losing the benefits of having a GSP tariff. Indonesia as a WTO member country will again be subject to MFN import tariffs by the EU. It will be a disadvantage for Indonesia to access the EU market with a higher tariff. In addition, although Indonesia and the EU are trying to conclude the CEPA, the EU is also in the process of negotiating other agreements with other countries that might be competing with Indonesia in terms of their main export commodities.

For instance, in the sector of coffee there is an FTA between the EU and Vietnam under adoption and ratification. In the sector of leather footwear, there are FTAs between the EU and Vietnam under adoption and ratification and between the EU and China that is being negotiated. In the sector of rubber, there are FTAs put on hold between the EU and Malaysia and between the EU and Thailand. In the sector of coconut oil, there are FTAs put on hold between the EU and Malaysia and between the EU and Thailand and an FTA between the EU and the Philippines that is being negotiated.[126] Furthermore, on one hand, it is clear that the CEPA negotiation between Indonesia and the EU can be seen as an opportunity. On the other hand, it can also be seen as a threat because the EU is also trying to negotiate its trade agreements with other partner countries.

[126] European Commission, "Negotiations and agreements."

Conclusion

Economic diplomacy is defined by Bergeijk and Moons as the use of a country's full spectrum economic tools to achieve its national interests. It was present since ancient times and its importance was on the rise again after 2008. At present, economic diplomacy with the aim to improve people's welfare has become a top priority for many countries including Indonesia. Increasing economic diplomacy is one of the main priorities in the implementation of the Republic of Indonesia's foreign policy in 2019-2024. To carry out economic diplomacy, Indonesia through the Ministry of Foreign Affairs has compiled several strategic steps. One of them is to strengthen trade and investment negotiations with partner countries.

Western Europe, as a traditional market for Indonesian export products has become a concentrated market. Although this would not embrace the V4 as a non-traditional market. The prospect of economic cooperation with Europe actually finds opportunities with groups of European countries such as V4 with the fastest economic growth. The market size of four V4 is the fifth largest in Europe and has an increasingly prominent bargaining position in the European Union. This makes V4 a potential untapped market for Indonesia. Currently, compared to other ASEAN countries, such as Singapore and Vietnam, the trade turnover between Indonesia and each of the V4 member countries is relatively much smaller.

The agreement between Indonesia and the EU shapes the conditions of mutual trade between Indonesia and the V4. Currently, Singapore and Vietnam have benefited from their free trade agreement with the EU. Meanwhile, Indonesia has still not completed the FTA negotiations with the EU. Currently, there are a total of nine rounds of negotiations on the FTA between Indonesia and the EU. The tenth negotiation round was planned in March 2020. A free trade agreement, when completed and signed, will change the conditions of bilateral trade between Indonesia and the EU, having impact on current account balance. The future agreement between the EU and Indonesia will also change the conditions of trade between the V4 and Indonesia. This results from the fact that all members of the EU are subject to common European trade policy conducted within the customs union.

Moreover, the complementarity between Indonesian and European Union markets in general and particularly with the V4 opens up many opportunities for closer and more intensive economic relations. Now, with current trade conditions between the two markets complementarity cannot be optimally utilised. Furthermore, the prospects for economic cooperation such as opening untapped markets and increasing sectoral cooperation are still wide open. Thus, this study aims to further investigate the key factors that influence trade flows between V4 and Indonesia, what are the obstacles, and whether economic diplomacy might change the systematic factors and overcome all the trade barriers, both tariff and non-tariff.

This study has one main research question: How can the activity of economic diplomacy influence trade between the V4 and Indonesia and change the systemic factors (including trade costs imposed by policies such as tariff and non-tariff barriers: quotas, limits, exchange rate policies along with trade costs imposed by the environment such as geographic distance, different languages, cultural diversity, and remaining obstacles)?

In order to be able to answer the main research question, the study identifies the problem and formulates sub-questions as follows:

1. What is the structure and value of trade between the V4 and Indonesia?
2. What is the correlation between the value of mutual turnover and the agreement liberalising trade between the European Union and Indonesia and how can it influence the V4 and Indonesian trade flows?
3. What are the key factors that influence trade flows between the V4 and Indonesia?

The aim of answering the main and sub-questions is to find out the trade relations (structure and value) between the V4 and Indonesia, and to further investigate whether the economic diplomacy and the comprehensive economic partnership agreement could increase the value of mutual turnover between the V4 and Indonesia. And finally, the aim is to contribute in introducing new research methods in evaluating trade relations between the V4 and Indonesia that can be useful to formulate a more effective and solution-oriented trade policy and agreement in both multilateral as well as bilateral format.

The finding of this study demonstrates that the trade structure data shows V4 countries' merchandise exports and imports to its partners are heavily dominated by manufacturing. The manufacturing sector accounts for more than two-thirds of their total export. Whereas, Indonesian merchandise exports to its partner is still dominated by raw material or primary goods. On the other hand, Indonesian merchandise imports to its partners are dominated by manufacturing. Some commodities that are seen having the most potential for Indonesia's export to V4 and having strong competitiveness index value include textiles, coffee, coconut oil, rubber, and footwear.

The trade partners' composition shows that most of the V4 exports and imports went to the EU countries as their main trade partners, followed by the BRICs. Accordingly, the total market shares of V4 for the Association of Southeast Asian Nations (ASEAN) countries are really small. Furthermore, in comparison to other ASEAN such as Singapore and Vietnam, the total market share and trade value between Indonesia and each of the V4 countries are relatively small. Thus, Indonesia and the V4 have remained marginal partners.

In the case of participation in Global Value Chains, V4 countries are strongly linked to Germany. V4 produces the final products or the pre-final products and exports these products to Germany. Whereas, Indonesia is strongly linked to China and other non-EU countries. Indonesia produces the final products or the pre-final products and exports these products to other Asian countries such as China, Singapore, and South Korea.

Based on the trade barrier profiles, Indonesia has higher tariffs imposed for imports based on duty ranges and product groups. In addition, Indonesia's tariff structure is not too complicated when compared to the EU tariff structure. Indonesia applies MFN tariff levels for non-FTA partners, whereas the EU imposes three different types of tariff structures on its trading partner countries. In contrast to European tariff arrangements, where the high tariff levels are directed towards various agricultural and food products and certain sectors such as textiles and footwear, Indonesia's higher tariff levels are directed towards finished non-agricultural products. Accordingly, several non-tariff barriers are present between the V4 and Indonesia, namely the difference in the national standard system, geographic distance, language, and cultural differences.

Furthermore, economic diplomacy can influence the change of trade flows between the V4 and Indonesia. Trade diplomacy has an important role in influencing trade flows between V4 and Indonesia. This is because trade diplomacy encapsulates free trade agreements and economic partnership agreements. Both the free trade area and economic partnership agreement directly affect trade flows by removing tariff barriers. The abolition of tariffs on the average import value of EU imports from Indonesia to increase by 5 percent. The average EU export to Indonesia might increase by 14 percent as a result of the abolition of tariffs. Accordingly, trade diplomacy through the framework of EPA aims to eliminate the non-tariff barriers such as import quotas, licensing rules, and limits. The comprehensive economic partnership agreement between Indonesia and the EU provides opportunities for the two countries to work together on technical regulations and other non-tariff measures.

Moreover, commercial diplomacy also plays a role in influencing the trade flows between V4 and Indonesia. Trade promotion as a form of commercial diplomacy can affect trade flows between the two entities. Countries can promote their products while exchanging information on how to overcome the non-tariff barriers in export destination countries including V4 and Indonesia in trade shows or trade exhibitions. Thus, the activity of economic diplomacy can influence trade between the V4 and Indonesia and change the systemic factors between them.

Finally, from the point of view of mercantilism, the Indonesian government and the EU strongly interfere in trade cooperation. It can be seen from the trade negotiation between the EU and Indonesia. Accordingly, Indonesia cannot negotiate directly its trade agreement with the V4. It must be done at the EU level. Thus, Indonesia and the EU are negotiating towards a new agreement that will give Indonesia better market access than other countries. Additionally, if there is a new trade agreement between the EU and Indonesia, then it might increase the value of mutual turnover between the V4 and Indonesia. Therefore, the government must assist the trade cooperation by negotiating and concluding the trade agreement and actively participate in trade promotion.

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