

A SIMULATION OF THE IMPACT OF INDONESIA-YEMEN BILATERAL TRADE LIBERALIZATION ON THE INDONESIAN AND YEMENI ECONOMIES: A SMART MODEL APPROACH

Wajid Fauzi, Abas Basori, Sulthon Sjahril Sabaruddin¹ and Rediatma Ihsan Supriyadi

Abstract: *This paper attempts to evaluate the impact of the trade liberalization between Indonesia and Yemen towards the Indonesian and Yemeni economies. To evaluate the potential impact on both economies, the study uses the Software for Market Analysis and Restrictions on Trade Model (SMART Model). The scenario analysis impact of the bilateral trade relations on both economies for the year 2013 reveals positive impact to the Indonesian economy and a relatively positive impact to the Yemeni economy. The study is conducted as a form of the possible policies anticipation if the political, economic, and security situation in Yemen have completely restored and back to normal.*

Keywords: *Free trade, trade liberalization, partial equilibrium analysis, Software for Market Analysis and Restrictions on Trade Model (SMART Model)*

JEL Classification: *F14, F15, F17*

1. BACKGROUND

The bilateral relations between Indonesia and Yemen have been positive and cordial as the two nations have an emotional and historically closed connection, particularly those related to the history of the dissemination of Islamic religion in Indonesia in the past (Embassy of the Republic of Indonesia in Sana'a, 2016). The spread of Islam is a very important process in the Indonesian history. The Yemeni people from Hadhramaut region have been present in Indonesia since the 11th century AD, and some even have claimed since the 9th century AD, with the purpose of doing trade and spreading of Islamic religion. The people of Yemen from Hadhramaut were known as Sayyid (the title signifies a descendant of the Prophet Muhammad) and skilled merchant with international networks that extend to the Middle East and East African region (Ricklefs, 2005).

Within the diplomatic relations sphere, the Government of the Republic of Yemen has always considered Indonesia as a brotherly country. The Republic of

* Embassy of the Republic of Indonesia in Sana'a, Salalah, Sultanate of Oman

Yemen is one of the first countries (in year 1948) which gave support the recognition of the independence and sovereignty State of the Republic of Indonesia, and in almost all instances do supported the candidacy of Indonesia in many international fora. In addition, there are Indonesian citizens of Arabic Yemeni descendant in Indonesia reaching 9 million people. These certainly are great assets for Indonesia to further strengthen the bilateral relations in all fields.

On 22nd May 1990, North Yemen and South Yemen were united and become a new state, the Republic of Yemen. After the Yemeni unification, the Government of Yemen directly converts the status of the Consulate General of South Yemen in Jakarta to become the Embassy of the Republic of Yemen. While the Embassy of the Republic of Indonesia in Sana'a was ratified based on the Presidential Decree No. 12/Year 1992 dated on 12th February 1992, and officially opened on 16th November 1992 (Embassy of the Republic of Indonesia in Sana'a, 2016).

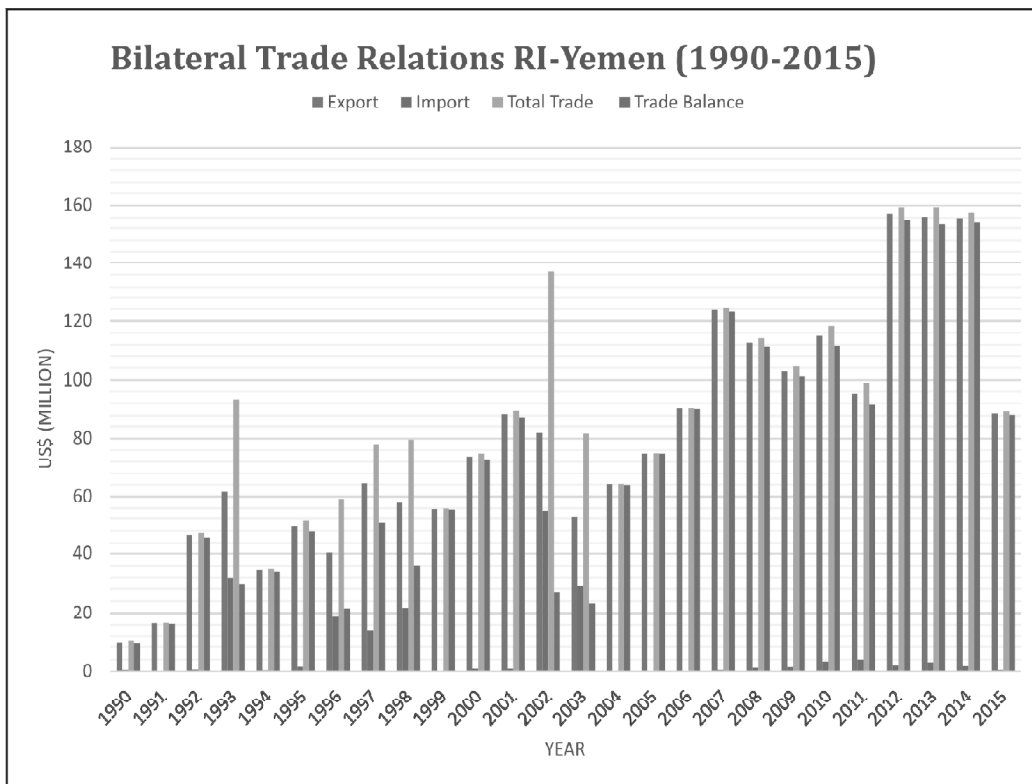
The close diplomatic relations between the two countries is also characterized by the reciprocal high official visits of both countries. It is noted the Indonesian President, Mr. Abdurrahman Wahid made an official visit to Yemen in 2001, while the Yemeni President made working visits to Indonesia in 1998, 2009, and 2016. In addition, the Vice President, Mr. Hamzah Haz paid an official visit to Yemen in 2003. Meanwhile, Yemeni Vice President Abdu Rabbu Mansour Hadi visited Indonesia in 2002.

Within the economic realm, both countries have signed number of economic cooperation such as Agreement between the Government of the Republic of Indonesia and the Government of the Republic of Yemen on Economic, Trade, Scientific and Technical Cooperation (24th January 1994, Sana'a), Trade Agreement between the Government of the Republic of Indonesia and the Government of the Republic of Yemen (20th February 1998, Jakarta), Agreement between the Government of the Republic of Indonesia and the Government of the Republic of Yemen concerning the Promotion and Protection of Investment (20th February 1998, Jakarta), Memorandum of Understanding between the Government of the Republic of Indonesia and the Government of the Republic of Yemen on the Establishment of a Joint Commission for Economic, Scientific, Technical and Commercial Cooperation (20th February 1998, Jakarta), Memorandum of Understanding between the Government of the Republic of Indonesia and the Government of the Republic of Yemen on Trade Promotion Cooperation (10th August 2005, Yogyakarta), and Memorandum of Understanding between the Batam Industrial Development Authority (BIDA) of the Republic of Indonesia and the Aden Free Zone of the Republic of Yemen on Free Zone Cooperation (10th August 2005, Yogyakarta).

During the period 1990 till 2015, trade relations between Indonesia and Yemen have increased quite rapidly. In 1990, the bilateral trade was only US\$10.46 million.

Now, in 2015, the bilateral trade volume reached US\$89.30 million. The bilateral trade reached its peak in 2013 amounting US\$159.38 million, before the Yemeni armed conflict in 2014 (the Al-Houthi seized control of the Capital Sana'a in 2014) and culminating in 2015 when a Saudi-led coalition launched airstrikes in Yemen.

Without the political problems and armed conflicts in the Republic of Yemen such as the Yemeni civil war (1994), the Arab Spring (2011), the seizure of the Capital Sana'a by Al-Houthi (2014), and the Saudi-led coalition airstrikes (2015), in general the bilateral trade relations showed a positive trend. Despite in general shows a positive trend, the current bilateral trade value is still below its potential and could potentially be further enhanced in the future. As an illustration, the Yemeni trade relations with other ASEAN nations such as Thailand, Malaysia, and Singapore are higher than Indonesia. In 2014, Yemeni trade relations with Thailand reached US\$1.43 billion, Malaysia (US\$643.74 million), and Singapore (US\$201.65 million). Further, Yemeni trade relations with the Asian giants such as China and India were able to reach US\$5.1 billion and US\$1.73 billion respectively.



Graphic 1: Bilateral Trade Relations RI-Yemen (1990-2015)

Source: UN COMTRADE and Ministry of Trade of the Republic of Indonesia (2016)

The market opportunity in Yemen can be seen from the total volume of foreign trade. In 2014, the total value of foreign trade of Yemen reached US\$14.4 billion. The country is a net importer reaching US\$9.6 billion. The country relies heavily on commodity imports to meet its domestic demand, which is at least about 80 percent of domestic needs are fulfilled from overseas. The items demanded by the Yemeni society ranging from consumer goods, household goods, to building materials, equipment and machinery (capital goods).

Looking at its potentialities, then there should be a significant space for Indonesia to further enhance the bilateral trade relations with Yemen. According to our own perspectives, one of the economic policy measures to expedite the Indonesia-Yemen bilateral trade relations is by establishing a bilateral Free Trade Agreement (FTA). The Republic of Yemen has become the 160th member of the WTO during the 9th WTO Ministerial Conference in Bali which was held last 4th December 2013. Further, on 28th April 2014, the Yemeni Parliament has ratified the WTO accession protocol. Therefore, in the future, the Government of Yemen will be expected to reorganize and revise the relevant free trade rules and regulations and, this effort would open economic opportunities for Indonesia to later explore the possibility of Indonesia-Yemen Free Trade Agreement (FTA) or at a very least a bilateral Preferential Trade Agreement (PTA).

Previous studies related to the Indonesia-Yemen bilateral trade relations are still very rare to find. This paper attempts to evaluate and examine the possible impact of the trade liberalization scenario between Indonesia and Yemen on both economies. Based on the empirical results, subsequently the study also offers economic policy recommendations.

2. LITERATURE REVIEW

Economic theory suggests that trade liberalization is expected among others to improve efficiency, economies of scale, competition, productivity factors and trade flows, thus, ultimately enhancing the countries' economic growth and prosperity (Barro and Sala-i-Martin, 1995). In contrast, there are also the opposite views that trade liberalization in fact could result in among others: increasing the trade deficit (Mutakin and Salam, 2009), decreasing the Gross Domestic Product (Haryadi et al, 2008), and declining countries' export competitiveness (Ibrahim, Permata and Wibowo, 2010). There are so many different views on the possible impact of trade liberalization, both at the theoretical and empirical level as described above.

Although there have been trade liberalization reform in many countries and a growing number of trade agreements such as the Free Trade Agreement (FTA), Preferential Trade Agreement (PTA), and the Comprehensive Economic Partnership Agreement (CEPA), but the fact is that, the trade barriers are still imposed by many countries and this led to impede the trade flows between

the countries involved. In addition, political and security factors such as political lobbying (Gawande and Krishna, 2001) and the country's security situation have also impeded the trade flows between the countries involved. These barriers caused a so-called trade gap through reduced trade flows between countries (Kalirajan, 2007). As a result of this, the current bilateral Indonesia-Yemen trade relations are also may be perceived to be still below its potentialities.

As already been described in the previous chapter, Indonesia-Yemen bilateral trade cooperation has had a legal basis since in the year 1994 with the signing of the Agreement between the Government of the Republic of Indonesia and the Government of the Republic of Yemen on Economic, Trade, Scientific and Technical Cooperation, Trade Agreement between the Government of the Republic of Indonesia and the Government of the Republic of Yemen (1998), Agreement between the Government of the Republic of Indonesia and the Government of the Republic of Yemen concerning the Promotion and Protection of Investment (1998), Memorandum of Understanding between the Government of the Republic of Indonesia and the Government of the Republic of Yemen on the Establishment of a Joint Commission for Economic, Scientific, Technical and Commercial Cooperation (1998), Memorandum of Understanding between the Government of the Republic of Indonesia and the Government of the Republic of Yemen on Trade Promotion Cooperation (2005), and Memorandum of Understanding between the Batam Industrial Development Authority (BIDA) of the Republic of Indonesia and the Aden Free Zone of the Republic of Yemen on Free Zone Cooperation (2005).

But the bilateral trade cooperation has not yet look to discuss the possible bilateral trade liberalization such as the PTA, FTA or even a comprehensive economic partnership agreement. Further, the recent political and security situation in Yemen is increasingly uncondusive and to many views, this has a major impact on the bilateral trade performance. One of the Saudi-led coalition attack in Sana'a on 20th April 2015 with a target to the Faj Attan armory has caused severe damage which virtually almost all buildings in the vicinity including the Embassy of the Republic of Indonesia in Sana'a. Subsequently, the Embassy of the Republic of Indonesia in Sana'a was required to temporarily move to Salalah, Sultanate of Oman until the political and security condition is back to conducive. Taking into consideration of the current situation in Yemen, then the role of both governments should become increasingly strategic and critical in the efforts to enhance the bilateral economic relations, particularly the trade relations. One of the measures that could be adopted is to encourage the realization of a bilateral trade liberalization through the framework of a free trade agreement in the medium run.

3. DATA AND METHODOLOGY

The research methods used in this paper is the partial equilibrium model, namely, the Software for Market Analysis and Restrictions on Trade Model (SMART Model)

to evaluate the impact of the Indonesia-Yemen bilateral trade liberalization on their respective economies. The trade liberalization scenario will eliminate tariffs to zero percent for all products (complete tariff dismantlement) using the trade data in year 2013.

SMART model is a partial equilibrium trade simulation model, which is used to assess the impact of the trade liberalization or free trade on: change in trade, change in tariff revenue, and welfare effects. The SMART model is part of the World Integrated Trade Solution (WITS), which was developed jointly by the World Bank and the United Nations Conference on Trade and Development (UNCTAD). This research tool is relatively easy to use because it only requires the trade data (trade flows), trade policy (e.g. the starting tariff figures) and the value of certain behavioral parameters (elasticity) (Plummer *et al.*, 2010).

SMART model is not a new research tool and there are many previous research have utilized this research tool. For the Indonesia-Yemen trade liberalization simulation, the authors used the following assumptions:

- 1) Partial Equilibrium: no income effect.
- 2) Export supply elasticity (supply elasticity) is assumed to be perfectly elastic where the price of each product (for example, apples from Indonesia) is given or pre-determined. By default, the SMART Model uses 99 basis points meaning infinite elasticity for all goods and partner countries.
- 3) Substitution elasticity (import substitution elasticity) is the value of substitution between two goods from different countries of origin. In this paper, the SMART model uses the Armington assumption in which the goods imported from different countries are assumed to be imperfect substitutes, for example, sardines from Yemen are imperfect substitutes with sardines from Indonesia. In the SMART Model, the import substitution elasticity is 1.5 point for each product.
- 4) Import demand elasticity measures the response of demand to import price changes. The default value is the same for all of Reporters (countries) but differ based on products.
- 5) Perfect competition meaning, for example, the tariff cuts are fully reflected in the price paid by consumers.

With these assumptions, the authors could evaluate the impact of change in trade policy (in this case measured from the change in tariffs) to the following variables: a) Trade creation effects (changes in imports); b) Tariff revenue effects; c) Consumer surplus (welfare); and d) Change in exports.

Within the simulation, the zero tariff rates will fully be applied in year 2013. The year 2013 is chosen due to the fact that the bilateral trade relations were not been disrupted by the war situation in Yemen, in which in the subsequent years,

in September 2014 occurred the seizure of the capital Sana'a by Al-Houthi militias and in March 2015 was the beginning of air strikes in Yemen by the Saudi led coalition forces. Also, in 2013 the Indonesia-Yemen bilateral trade volume was the highest in the history of diplomatic relations between the two countries.

The data used to analyze the bilateral trade relations is a six digit code of the Harmonized System (HS) obtained from World Integrated Trade Solutions (WITS) (<http://wits.worldbank.org>) and the United Nations Commodity Trade (COMTRADE) (<http://unstats.un.org/unsd/comtrade/>). UN COMTRADE is a comprehensive database on statistics of goods in international trade.

4. RESULTS AND DISCUSSION

The Impact of the Indonesia-Yemen Trade Liberalization on the Indonesian and Yemeni Economies (Partial Equilibrium Analysis - SMART Model)

In this chapter, the SMART partial equilibrium model will be used to assess the potential impact of the Indonesia-Yemen trade liberalization on the Indonesian and Yemeni economies using year 2013 as a reference data with full liberalization scenario or so-called complete dismantlement tariff (zero tariff). Specifically, the paper examines the impact on the welfare, tariff income, and changes in import and export. In the analysis, the authors use HS 6 Digit products data.

The Impact on the Indonesian and Yemeni Economic Welfare (Consumer Surplus / Consumer Welfare)

As described in the previous chapter, the economic welfare could be measured by consumer surplus. The impact of Indonesia-Yemen trade liberalization are expected to enhance the Indonesian consumer surplus by US\$9670. The top five products, namely are: HS030374 (Frozen Mackerel), HS030371 (Frozen Sardines, Brisling or Sprats), HS470710 (Waste and scrap of unbleached kraft paper, paper), HS780191 (Lead unwrought containing by wt. Of antimony as th) and HS780199 (Lead unwrought nes) which represent 98.55 percent of the total increase in the Indonesian society welfare amounted US\$9530. The Top 10 products which contributed the highest Indonesian consumer surplus as a result of the Indonesia-Yemen trade liberalization are as followed:

Meanwhile, for the Yemeni society, the potential impact of the Indonesia-Yemen trade liberalization is expected to enhance Yemeni consumer surplus by US\$2.58 million. The top five products with the highest consumer surplus are: HS151190 (Palm oil (excl. Crude) and liquid fractions), HS160414 (Prepared or preserved tuna, skipjack and bonito), HS030239 (Fresh or chilled buds, nes), HS870210 (Diesel powered buses) and HS540834 (Printed woven fabrics of artificial filaments). These top five products represent 63.13 per cent of the total increase in social welfare in

Table 1
The Impact of the Indonesia-Yemen Trade Liberalization on the Indonesian Consumer Surplus (Top 10 Products)

<i>Product Code</i>	<i>Product Name</i>	<i>Consumer Surplus in USD</i>
030374	<i>Frozen Mackerel</i>	2875
030371	<i>Frozen Sardines, Brisling or Sprats</i>	2226
470710	<i>Waste and scrap of unbleached kraft paper, paper</i>	2220
780191	<i>Lead unwrought containing by wt. antimony as th</i>	1753
780199	<i>Lead unwrought nes</i>	456
901590	<i>Parts and accessories for use with the apparatus</i>	51
392410	<i>Tableware and kitchenware of plastics</i>	49
731816	<i>Nuts, iron or steel, nes</i>	15
841381	<i>Pumps nes</i>	10
600129	<i>Looped pile fabrics of textile materials, knitt</i>	5

Source: World Integrated Trade Solution (2016)

Yemen amonted US\$1.62 million. The Top 10 products which contributed the highest Yemeni consumer surplus are as followed:

Table 2
The Impact of Indonesia-Yemen Trade Liberalization on the Yemeni Consumer Surplus (Top 10 Products)

<i>Product Code</i>	<i>Product Name</i>	<i>Consumer Surplus in USD</i>
151190	<i>Palm oil (excl. crude) and liquid fractions</i>	472519
160414	<i>Prepared or preserved tuna, skipjack and bonito</i>	468144
030239	<i>Fresh or chilled tunas, nes</i>	295433
870210	<i>Diesel powered buses</i>	224791
540834	<i>Printed woven fabrics of artificial filaments</i>	168011
870331	<i>Automobile with diesel engine</i>	146067
030231	<i>Albacore or longfinned tunas (Thunnus alalunga)</i>	69511
030439	<i>Fish fillets and other fish meat (whether or not minced), fresh, chilled or frozen - other</i>	42706
030233	<i>Skipjack or stripe -bellied bonito</i>	40006
690890	<i>Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, whether or not on a backing - other</i>	39835

Source: World Integrated Trade Solution (2016)

Based on the simulation above, the bilateral trade liberalization would expect both countries to gain economic benefits through higher consumer welfare. The Indonesian society is expected to gain economic benefits by a relatively small amount valued US\$9670. Meanwhile, the Yemeni society is predicted to obtain huge economic benefits, reaching US\$2.58 million. Within the framework of this

partial equilibrium model approach, the analysis does not capture the overall picture of the country's welfare as it does not assess the impact on the producer surplus.

The Impact on the Indonesian and Yemeni Tariff Revenues

Based on the analysis, the full elimination of import tariffs for all Yemeni products will be expected to reduce the Indonesian government revenue (and vice versa). It should be noted that the loss of tariff revenue from the given scenarios are referred to the loss of the import tariff revenue. With the full trade liberalization Indonesia-Yemen scenario, the tariff revenue of the government of Indonesia is expected to reduce by US\$400326. The top five products with the biggest tariff revenue losses are: HS030371 (Frozen Sardines, Brisling or Sprats), HS780191 (Lead unwrought containing by wt. Of antimony as th), HS470710 (Waste and scrap of unbleached kraft paper, paper), HS030374 (Frozen Mackerel), and HS780199 (Lead unwrought nes). These five products represent 99.19 percent (or US\$397117) of the total loss of Indonesian tariff revenue in 2013. Here are the list of the top 10 Yemeni products that are expected to reduce the Indonesian government revenue:

Table 3
The Impact of the RI-Yemen Trade Liberalization on the Indonesian Tariff Revenues (Top 10 Products)

<i>Product Code</i>	<i>Product Name</i>	<i>Tariff Change in Revenue (USD)</i>
030371	<i>Frozen Sardines, Brisling or Sprats</i>	-154997
780191	<i>Lead unwrought containing by wt. antimony as th</i>	-130954
470710	<i>Waste and scrap of unbleached kraft paper, paper</i>	-63351
030374	<i>Frozen Mackerel</i>	-32847
780199	<i>Lead unwrought nes</i>	-14968
901590	<i>Parts and accessories for use with the apparatus</i>	-1337
841381	<i>Pumps nes</i>	-483
392410	<i>Tableware and kitchenware of plastics</i>	-414
761519	<i>Table, kitchen or other household articles and parts thereof</i>	-326
731816	<i>Nuts, iron or steel, nes</i>	-197

Source: World Integrated Trade Solution (2016)

On the other hand, the trade liberalization between Indonesia and Yemen is expected to reduce the Yemeni tariff revenue by US\$38.19 million. The Yemeni government import tariff losses is derived from products HS151190 (Palm oil (excl. Crude) and liquid fractions) amounted US\$16.70 million, followed by HS160414 (Prepared or preserved tuna, skipjack and bonito) amounted US\$3.04 million, and HS401110 (New pneumatic tires, of rubber) amounted US\$1.76 million. The palm oil commodities represent 43.72 percent of the total loss of tariff revenue by the Government of Yemen in 2013. Here are the list of the top

10 Indonesian products that are expected to generate tariff loss revenue beared by the Yemeni government:

Table 4
The Impact of the Indonesia-Yemen Trade Liberalization on the Yemeni
Tariff Revenues (Top 10 Products)

<i>Product Code</i>	<i>Product Name</i>	<i>Tariff Change in Revenue (Million USD)</i>
151190	<i>Palm oil (excl. crude) and liquid fractions</i>	-16.70
160414	<i>Prepared or preserved tuna, skipjack and bonito</i>	-3.04
401110	<i>New pneumatic tyres, of rubber</i>	-1.76
482020	<i>Exercise books</i>	-1.01
870210	<i>Diesel powered buses</i>	-0.84
481019	<i>Prepared or preserved tuna, skipjack and bonito</i>	-0.80
870421	<i>Motor vehicles for the transport of goods (g.v.w. not exceeding 5 tonnes</i>	-0.70
480300	<i>Toilet or facial tissue stock, towel or napkin stock and similar paper of a kind used for household or sanitary purposes, cellulose wadding and webs of cellulose fibres, whether nor or not creped, crinkled, embossed, perforated, surface-coloured, surface-dec</i>	-0.64
870331	<i>Automobile with diesel engine</i>	-0.61
030233	<i>Skipjack or stripe -bellied bonito</i>	-0.59

Sumber: World Integrated Trade Solution (2016)

The Impact on Changes in Indonesian Imports from Yemen

The impact of trade liberalization between Indonesia and Yemen will certainly boost Indonesia's import from Yemen due to the declining prices of products imported from Yemen. Change in import is a trade creation effect, thus, the change in import (in this case is the increase in import) portrays the amount of the trade creation effect. The total change in import as a result of the trade liberalization between Indonesia and Yemen in 2013 (with zero tariffs) are expected to increase by US\$729580.

The highest increased in import products (change in imports) from Yemen after the implementation of Indonesia-Yemen trade liberalization are: HS030374 (Frozen Mackerel) amounted US\$435067, followed by HS780191 (Lead unwrought containing by wt. Of antimony as th) amounted US\$117443, HS030371 (Frozen Sardines, Brisling or Sprats) amounted US\$103602, HS470710 (Waste and scrap of unbleached kraft paper, paper) amounted US\$54412, and HS780199 (Lead unwrought nes) amounted US\$16332. These five products represent 99.62 percent of total change in Indonesian imports. The list of the top 10 imported products with the highest increase in imports (change in import) after the implementation of the Indonesia-Yemen trade liberalization are as followed:

Table 5
Top 10 Yemeni Products with the Highest Increase in Indonesian Imports after the Implementation of the Indonesia-Yemen Trade Liberalization for the Year 2013

<i>Product Code</i>	<i>Product Name</i>	<i>Import Change (USD)</i>
030374	Frozen Mackerel	435067
780191	Lead unwrought containing by wt. antimony as th	117443
030371	Frozen Sardines, Brisling or Sprats	103602
470710	Waste and scrap of unbleached kraft paper, paper	54412
780199	Lead unwrought nes	16332
901590	Parts and accessories for use with the apparatus	1274
841381	Pumps nes	394
392410	Tableware and kitchenware of plastics	361
761519	Table, kitchen or other household articles and parts thereof	182
731816	Nuts, iron or steel, nes	149

Source: World Integrated Trade Solution (2016)

The Impact on the Change in Indonesian Export to Yemen

By eliminating the Yemeni import tariff rates for all Indonesian products to zero percent, then it will open a market access for Indonesian products to a country with the largest market in the Arabian Peninsula region with a total population of 26 million people (as of January 2016) and made this country with the largest population in the region of the Arabian Peninsula. Moreover, in terms of economic power, the GDP of the Republic of Yemen reached US\$35.95 billion (2014) making the country to become the 93rd largest economies in the world. Therefore, the Indonesia-Yemen trade liberalization will be expected to significantly boost Indonesian exports to Yemen. With the implementation of the trade liberalization between Indonesia and Yemen for the year 2013, it is predicted that the Indonesian exports to Yemen will increase by US\$47.43 million.

As for the top 10 Indonesian products with the highest increase in export to Yemen are: HS151190 (Palm oil (excl. Crude) and liquid fractions) valued US\$9.93 million, followed by HS870210 (Diesel powered buses) amounted US\$4.83 million, HS870331 (Automobile with diesel engines) amounted US\$4.52 million, HS540834 (Printed woven fabrics of artificial filaments) amounted US\$3.47 million, tuna (HS030239 and HS160414) amounted US\$5.01 million, paper products (HS480459 and HS480431) amounted US\$2.8 million, HS841810 (Combined refrigerator-freezers) amounted US\$902702 and HS401110 (New pneumatic tires, of rubber) amounted US\$848273.

Yemeni consumers are expected to obtain economic benefits from the realization of free trade agreement (trade liberalization) as the Yemeni consumers will have an access to purchase Indonesian products at a cheaper price and thus, the Yemeni society would economically benefit from the improvement of their living standards. The list of the top 10 Indonesian products with the highest increase in exports as a

result of implementation of the Indonesia-Yemen trade liberalization are as followed:

Table 6
Top 10 Indonesian Products with Highest Increase in Exports after the Implementation of the Indonesia-Yemen Trade Liberalization

<i>Product Code</i>	<i>Product Name</i>	<i>Export Change in Revenue in USD</i>
151190	<i>Palm oil (excl. crude) and liquid fractions</i>	9932068
870210	<i>Diesel powered buses</i>	4836005
870331	<i>Automobile with diesel engine</i>	4523710
540834	<i>Printed woven fabrics of artificial filaments</i>	3472196
030239	<i>Fresh or chilled tunas, nes</i>	2961929
160414	<i>Prepared or preserved tuna, skipjack and bonito</i>	2057054
480459	<i>Kraft Paper</i>	1565792
480431	<i>Unbleached Kraft Paper</i>	1239069
841810	<i>Combined refrigerator-freezers</i>	902702
401110	<i>New pneumatic tyres, of rubber</i>	848273

Source: World Integrated Trade Solution (2016)

The Recent Development on the Conflict and Resolution Efforts in Yemen

The current political, security, and the economic situation in Yemen are still unstable. This can be seen particularly over the last five years. The Yemeni people demanded political changes and economic reforms to improve economic welfare. At first, the efforts of the political settlement gave hope to the development of democracy, providing opportunities for all parties to advance the state of the Republic of Yemen. To resolve the crisis, the country formed a national forum called the National Dialogue Conference (NDC), which consists of political parties and societal forces. The NDC is assigned among others to formulate the constitution, to make necessary arrangement of the Yemeni territory to become a federation territory, to create the election rules and regulations, to carry out the elections, and to implement the state economic system reform.

In 2014, the aspiration differences between the political parties and social forces are increasingly significant. The Al-Houthi group rejected the drafted constitution by the Committee of the Constitution Drafting, rejected the division of the federation territory, demanded a change of the Yemeni President as the tenure period already ended, and rejected to resolve the matters through negotiations. As a result, the Al-Houthi group did mobilize their people to carry out demonstrations and subsequently creating armed conflicts beginning from August 2014 until now. In 2015, the armed conflict reached its peak when the Saudi-led coalition forces launched air strikes in Yemen.

However, there is a hope for peace in Yemen, particularly with the recent parties involved in the Yemen conflict agreed to participate in a peace dialogue in Kuwait in the upcoming 18th – 20th April 2016. The planned peace talks were delayed as the Al-Houthi group demanded ceasefire before the peace dialogue meeting. It is expected that the peace negotiation would result in a positive outcome, and it would be expected there would be a cooperation agreement to build a new governance and economic development governance in Yemen. Thus, when the condition of the Yemeni government and the economic activities are already back to normal, in this right momentum the Government of Indonesia may consider to attempt reap advantage and make full use of economic opportunities (including trade relations) in the Republic of Yemen.

The Possible Application of the Bilateral Visa Exemption or Visa on Arrival (VoA)

As described in the previous chapter, the Indonesia-Yemen bilateral relations have been well established and the two nations have an emotional connection and historically close relation. To further strengthen the current bilateral relations, then presumably one of the steps that can be done is the implementation of visa exemption or VoA on a reciprocity basis to facilitate people to people contact.

It is understood that the application of the visa exemption (or VoA) requires an in-depth study, given the current situation in Yemen is still un conducive. But the anticipation of a bilateral visa exemption policy presumably is an option to think about. It should be understood that the process of the visa exemption (or VoA) negotiation will involve many different institutions and presumably with many different views. Given these circumstances, thus, one option could be to apply the visa exemption gradually (step by step), maybe starting from the bilateral visa exemption for holders of diplomatic and service passports agreement, and later followed by a visa exemption (or a VoA) agreement for holders of ordinary passports. For the holders of the ordinary passports, an in depth study should be done by the Indonesian government. Thus, supposedly the visa exemption is realized, this visit facility is expected to enhance people to people contact and facilitate the trade relations between the two countries.

5. CONCLUSION AND POLICY RECOMMENDATION

During the period 1990-2015, trade relations between Indonesia and Yemen have increased quite rapidly. The bilateral trade relations reached its peak in 2013, just a year before the armed conflict began in Yemen. Despite these overall positive trends in the bilateral trade relations (at least until year 2013), the bilateral trade volume is still perceived to be below its potential and could still be further enhance in the future. In an effort to boost the bilateral trade volume, one of the policy measures that could be taken is to establish a bilateral free trade agreement.

This paper attempts to evaluate the possible impact of the Indonesia-Yemen trade liberalization on both economies. The simulation results of the impact of Indonesia-Yemen trade liberalization towards the Indonesian economy reveals a very positive impact. While for the Yemeni economy, in general it is expected to result in a positive impact, but the implications for import tariff revenue losses are significant.

Based on the economic welfare analysis (consumer surplus), it is expected the Yemeni people will reap economic benefits far greater than the Indonesian society. On the contrary, looking from the amount of import tariff revenue losses, for this case, the loss beared by the Government of Yemen is far greater than the Government of Indonesia.

Based on the change in trade figure, the result shows that the bilateral trade liberalization would open a significant increase of Indonesian export to Yemen. Meanwhile, Yemen's exports to Indonesia is also expected to increase but with the amount lesser than Indonesia. Thus, from all the above analysis, it could be illustrated that the largest economic benefits from the bilateral trade liberalization derived from the increase in Indonesian export to Yemen by US\$47.43 million.

Looking from its economy and the given potential market opportunities, the Republic of Yemen should be listed as one of the targeted countries in the Indonesian economic diplomacy. The conflicts in Yemen are still ongoing until now and has caused a significant impact to the bilateral trade relations. But on the other hand, there are expectations in year 2016 or in the forthcoming years that should the war ended, then the new reconstruction program in Yemen begins, and the economic cooperation is expected to be back to normal. The reconstruction period in Yemen (post war period) would provide new economic opportunities for the other countries.

Moreover, Yemen is a net importer country in which most of the needs are fulfilled from importing goods from other countries. In the post-conflict period, in order to take full advantage of economic opportunities in Yemen, then, Indonesia needs to anticipate properly, among others, including to establish a legal framework protecting the bilateral trade, to scrutinize the list of goods demanded by Yemeni people, to offer goods with competitive prices, to produce high quality goods, timely delivery, and to prepare the necessary Human Resources (HR) to help support the good procurement.

In relations to the trade liberalization, the bilateral free trade agreements should be explored in the earliest possible before other countries do similar initiatives to form free trade agreements or even comprehensive economic partnership agreements with the Republic of Yemen.

Indonesia in fact has a number of crucial assets compared to many other countries to further enhance the bilateral relations in all fields. In terms of history,

the two countries have strong emotional attachment in which since the 11th century have begun to make contact with the spread of Islam by the Yemeni traders and Islamic scholars in Indonesia. Further, there are Indonesian citizens of Yemeni descendant in Indonesia reaching around 9 million people. In the political sphere, Yemen is among one of the first Arabic countries to recognize the independence of Indonesia and in terms of the bilateral relations, Yemen has always fully support the Unitary State of the Republic of Indonesia (NKRI) and in almost all circumstances do supported the candidacy of Indonesia in many international fora. The Yemeni government has always considered Indonesia as a brotherly country.

Given the above potential assets, the two countries should have plenty of room and thus, opportunities to further enhance the bilateral relations in all fields. In fact, the bilateral relations should no longer be a regular partner but elevating the status of the partnership into a comprehensive partnership, which could be started from building a comprehensive economic partnership. As an illustration, the Republic of Yemen has signed free trade agreements such as the Greater Arab Free Trade Area (GAFTA) and Preferential Trade Agreements (PTAs) such as Generalized System of Preferences (GSP) and the Duty-Free Treatment for Least Developing Countries (LDCs). According to the General Investment Authority Yemen (2016), there are more than 60 agreements and protocols of trade and investment that has been signed by the Government of Yemen.

Thus, trade liberalization is not a new phenomenon for the Government of Yemen and therefore, to strengthen the Indonesia-Yemen bilateral trade relations, the government of Indonesia should consider to explore a trade cooperation in the form of a bilateral free trade agreement. As stated above, the elimination of tariff barriers between the two countries as a whole is expected to have a positive impact on both countries' economies.

The tariff barrier is not the only variable affecting the trade performance between the two countries. There are a number of other factors that also influence the bilateral trade relations performance, among others such as the non-tariff barriers, the political, security, and the economic situation of both countries, the number of diaspora, and even factors such as the presence of the Indonesian Embassy accredited to the Republic of Yemen which is currently based outside of the country of accreditation (in Salalah, Oman) and the visa issuance policy to the Yemeni citizens who are willing to travel abroad, including Indonesia. Despite there are plenty of other factors affecting the bilateral trade performance, the efforts to eliminate tariff barriers through the bilateral trade could be one of the policies to be considered in the future given the potential economic benefits that could be reaped by both countries.

Apart from trade liberalization, another potential policy to be considered is the visa liberalization policy (free visa) to the Yemeni citizens. If Yemen is already

back to normal and the government runs effectively, then it is timely that Yemen could be considered for visa exemption. The visa exemption is expected to encourage people to people contact between the two countries, and in turn helped increase the trade flow between the two countries. As an illustration, as of March 2016, the Government of Indonesia has adopted visa exemptions for 30 days to 169 friendly countries (Adityo, 2016). The policy of granting visas should be priorly first pass through to the bilateral talks and should based on the principle of reciprocity. Uptill now, the Republic of Yemen does not provide visa exemption to the Indonesian citizens who travel to Yemen.

Note

1. The policy research working paper is submitted for the International Research Conference on Management and Business (IRCMB) to be held on 6th August 2016, Jakarta. This policy research working paper represents research in progress. The policy research working paper prepared by the Embassy of the Republic of Indonesia in Sana'a professionals are meant to stimulate discussion topics on Indonesia-Yemen diplomatic relations. They reflect the opinions of the authors, and are the product of professional research. The working paper has previously been submitted to the Ministry of Foreign Affairs of the Republic of Indonesia to obtain the necessary inputs and reviews. The opinions expressed are those of the authors. The authors can be contacted at: *sulthon.sjahril@kemlu.go.id*; *sulthon.sjahril@kemlu.go.id*; *ahmad72nazir@gmail.com*

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