ANALYSIS OF TRADE LIBERALIZATION BETWEEN
INDONESIA AND TURKEY

THESIS

TRI KURNIA SEPTIAWAN
0806469022

FACULTY OF ECONOMICS
MASTER OF PLANNING AND PUBLIC POLICY
JAKARTA
JULY 2010
ANALYSIS OF TRADE LIBERALIZATION BETWEEN INDONESIA AND TURKEY

THESIS
Submitted in partial fulfilment of the requirement for the Degree of Master of Economics

TRI KURNIA SEPTIAWAN
0806469022

FACULTY OF ECONOMICS
MASTER OF PLANNING AND PUBLIC POLICY
JAKARTA
JULY 2010

University of Indonesia
STATEMENT OF PLAGIARISM

I who undersigned on below that declare of the truth that this thesis. I made without the act of plagiarism accordance with the applicable rules at the University of Indonesia.

If the future apparently I doing act of plagiarism, I will be fully responsible and accept the sanction imposed by the University of Indonesia.

Jakarta,    July 2010

Tri Kurnia Septiawan

University of Indonesia
STATEMENT OF AUTHORSHIP

“I certify that the attached material is my original work. I declare that no other person’s work has been used without due acknowledgement”

Except where I have clearly stated that I have used some of material elsewhere, it has not been presented by me for examination in any other course or unit at this or any other institution.

I understand that the work submitted may be reproduced and/or communicated by the University or third party authorized by the University for the purpose of detecting plagiarism.

Name : Tri Kurnia Septiawan
Student Register Number : 0804649022
Document : Thesis
Title of Thesis : Analysis of Trade Liberalization between Indonesia and Turkey
Date : July 2010
Advisor/Supervisor : Dr. Maddaremeng A. Penennungi

Jakarta, July 2010

Tri Kurnia Septiawan
PAGE OF ENDORSEMENT

The thesis submitted by:
Name : Tri Kurnia Septiawan
NPM  : 0806469022
Study : Magister Planning and Public Policy
Title of Thesis : Analysis of Trade Liberalization between Indonesia and Turkey

Success has been maintained on the Board of Examiners and accepted as part of the requirements necessary to obtain Magister of Economics degree in study of Magister Planning and Public Policy in Faculty of Economy of University of Indonesia

Board of Examiners

Advisor : Dr. Maddaremmeng A. Panennungi

Examines : Arindra A. Zainal, Ph.D.

Examines : Dr. Widyono Soetjipto

Stated in : Jakarta

Date : July 2010

University of Indonesia

ACKNOWLEDGEMENT

Alhamdulillahi Robbil Allamin, I could complete this thesis. The thesis is a partial fulfillment of the requirements for the degree of Master of Economics in International Trade Policy, Master of Planning and Public Policy Program (MPKP), Faculty of Economy, University of Indonesia. With the completion of this research, I would like to express my sincere gratitude to the following people who made this research possible:

1. Bapak Dr. Maddaremmeng A. Panennungi, the advisor who was assists me completing the thesis. His kindness to support and to advice were very important to enhance the thesis;
2. Board of Examiners, Bapak Arindra A. Zainal, Ph.D. as Chief of Examiner and Bapak Dr. Widyono Soetjipto as Member of Examiner who are give another perspective to improve the thesis;
3. All of the lecturer and administration staff in MPKP;
4. Bapak Ir. Rahayubudi, MM. as Head of Center for Trade Education and Training, Ministry of Trade;
5. Bapak Drs. Robby Kumenaung as Head of Bureau for Personnel Affair and Organization who give me an opportunity to taking MPKP class;
6. Mr. Roger Freeman, Mr. Wayan, Mrs. Ernawati, Mr. Steven Mark and all of ITAP-USAID staff, who have been very helpful in supporting all of our needs during the class;
7. My Classmate MPKP Batch 3 who colored the class and support me to make the thesis finished;
8. Adrian B. Lubis MSi, TRED[A, Ministry of Trade, who help and support me to make the thesis finished;
9. Wahyu PUSDATA, Ministry of Trade, who provided data to make the thesis finished;
10. Bu Tuti, Bu Mursala, Pak Sapuratwi, Pak Cipto, Pak Eko, Nanang Pak Warmo, Pak Supardi and All my friends on Center for Trade Education and Training who supporting me in material and spiritual;

11. All of the people who have helped and inspired me in completing this research and study on MPKP.

Finally, for the special the research is dedicated for my parents, Papa H. Hamdani Dachlan, SE, MM. and Mama Siti Anggarkasih, My Brother Rachmat Dwiputranoto, SE., My lovely wife Retno Tirtaningsih, my lovely children Ridhwan Fajar Ramadhani and Fayruz Ramiza Alya, who are always supporting in every situation. However, I believe that this research is still imperfect. Therefore, suggestions are welcome to enhance this research.

Jakarta, July 2010

Tri Kurnia Septiawan
STATEMENT OF ASSERTION

As civitas academia of University of Indonesia, I who signed on below:
Name : Tri Kurnia Septiawan
Student Register Number : 0806469022
Program of Study : Master of Planning and Public Policy
Departement : Economics
Faculty : Economics
Kind of Opus : Thesis

For development in science, I agree to give to University of Indonesia a Non-exclusive Royalty – Free Right on my thesis in title “Analysis of Trade Liberalization between Indonesia and Turkey”
By Non-exclusive Royalty – free Right, University of Indonesia has right to save, formatted, manage in database, maintain and publicized my thesis without ask the license from me as long as write down my name as writer/inventor and as owner of copyright.
Thus this statement I made truly.

Made in Jakarta
Date: July 2010

Tri Kurnia Septiawan
ABSTRACT

Name : Tri Kurnia Septiawan
Program : Master of Planning and Public Policy
Title : Analysis of Trade liberalization between Indonesia and Turkey

This study is aimed to investigate the impact of bilateral trade liberalization between Indonesia and Turkey. This study is using the General Trade Analysis Project model and simulating the tariff reduction scheme which was considered as barriers to trade. In addition, to formulate “a product that has a good indicator” that involved in the trade liberalization, this study uses index calculations as an indication that the product has the potential to be enhance. Some findings as followings: the trade liberalization between Indonesia and Turkey has a significant and positive impact for Indonesia especially of the trade balance, increasing of welfare, and employment changes. It seem that the bilateral trade liberalization between Indonesia and Turkey will give higher benefit to Indonesian economy compared to Turkey.

Keyword: Bilateral Trade, Indonesia and Turkey, Liberalization, GTAP

ABSTRAK

Name : Tri Kurnia Septiawan
Program : Magister Perencanaan dan Kebijakan Publik
Title : Analisa Liberalisasi Perdagangan antara Indonesia and Turkey

Studi ini bertujuan untuk mengetahui dampak dari liberalisasi perdagangan antara Indonesia dan Turkey. Studi ini menggunakan Model General Trade Analysis Project (GTAP) dan melakukan simulasi skema penurunan tariff yang dinilai sebagai hambatannya. Selain itu, untuk memformulasikan “produk yang memiliki indikator yang baik” yang terkait dalam liberalisasi perdagangan tersebut, studi ini menggunakan perhitungan index sebagai indikasi bahwa produk tersebut mempunyai potensi untuk ditingkatkan. Beberapa tujuan menunjukkan bahwa liberalisasi perdagangan Indonesia dan Turki memiliki dampak positif dan signifikan buat Indonesia. Khususnya neraca perdagangan Indonesia, peningkatkan kesejahteraan, peningkatan tenaga kerja. Namapnya liberalisasi perdagangan bilateral antara Indonesia dan Turkey akan memberikan keuntungan yang lebih besar kepada Indonesia dibandingkan dengan Turkey.

Kata Kunci : Bilateral Trade, Indonesia and Turkey, Liberalization, GTAP
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>STATEMENT OF UNPLAGIARISM</td>
<td>ii</td>
</tr>
<tr>
<td>STATEMENT OF AUTHORSHIP</td>
<td>iii</td>
</tr>
<tr>
<td>PAGE OF ENDORSEMENT</td>
<td>iv</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>v</td>
</tr>
<tr>
<td>STATEMENT OF ASSERTION</td>
<td>vii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>viii</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td>x</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>xi</td>
</tr>
<tr>
<td>LIST OF FIGURE</td>
<td>xii</td>
</tr>
</tbody>
</table>

I. INTRODUCTION ............................................. 1
   Background ........................................... 1
   Research Objectives .................................. 2
   Scope of Research ..................................... 3
   Research Methodology .................................. 3
   Framework ............................................. 4
   Thesis Organization .................................... 4

II. LITERATURE REVIEW .................................... 5
   International Trade Theory ............................ 5
   Free Trade Agreement (FTA) ........................... 7
   Non Tariff Barriers ................................... 9
   Trade Diversion and Trade Creation .................. 11

III. RESEARCH METHODOLOGY ............................... 12
   Data Source .......................................... 12
   Index Analysis and General Trade Analysis Project (GTAP) .......................... 12
   Descriptive analysis .................................... 21

IV. OVERVIEW OF INDONESIA AND TURKEY TRADE PERFORMANCE ............................................. 22
   Overview Indonesian Economy .......................... 23
   4.1.1 Indonesia Macroeconomic Review ................ 24
   4.1.2 Indonesia Trade performance .................... 24
   4.1.3 Indonesian Trade Policy .......................... 27
   Overview Turkey Economy ............................... 29
   4.1.1 Turkey Macroeconomic Review .................... 30
   4.1.2 Turkey Trade performance ........................ 31
   4.1.3 Turkey Trade Policy ................................ 33
   Economic Relationship between Indonesia and Turkey .......................... 34
   Trade Relation between Turkey and EU ................ 36

University of Indonesia

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>GTAP Data</td>
<td>39</td>
</tr>
<tr>
<td>V. ANALYSIS AND RESULT</td>
<td>40</td>
</tr>
<tr>
<td>Impact of Trade Liberalization Indonesia – Turkey</td>
<td>40</td>
</tr>
<tr>
<td>5.1.1 Impact on Trade Balance</td>
<td>41</td>
</tr>
<tr>
<td>5.1.2 Impact on Welfare</td>
<td>42</td>
</tr>
<tr>
<td>5.1.3 Impact on Labor Demand</td>
<td>44</td>
</tr>
<tr>
<td>Industry Relation Index and Comparative Advantage</td>
<td>46</td>
</tr>
<tr>
<td>Scope of liberalization</td>
<td>50</td>
</tr>
<tr>
<td>Removal on Non-Tariff Barriers</td>
<td>53</td>
</tr>
<tr>
<td>VI. CONCLUSION AND RECOMMENDATION</td>
<td>53</td>
</tr>
<tr>
<td>Conclusion</td>
<td>53</td>
</tr>
<tr>
<td>Recommendation</td>
<td>53</td>
</tr>
<tr>
<td>REFERENCES</td>
<td>54</td>
</tr>
<tr>
<td>APPENDICES</td>
<td>55</td>
</tr>
</tbody>
</table>
**LIST OF TABLES**

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1</td>
<td>Trade Balance Indonesia-Turkey 2004-2008</td>
<td>23</td>
</tr>
<tr>
<td>Table 2</td>
<td>Main Macroeconomics Indicators Indonesia</td>
<td>24</td>
</tr>
<tr>
<td>Table 3</td>
<td>Indonesia Trade Performance</td>
<td>25</td>
</tr>
<tr>
<td>Table 4</td>
<td>Indonesia Trade Performance per Product, year 2008</td>
<td>27</td>
</tr>
<tr>
<td>Table 5</td>
<td>Main Macroeconomics Indicators Turkey</td>
<td>30</td>
</tr>
<tr>
<td>Table 6</td>
<td>Turkey Trade Performance</td>
<td>31</td>
</tr>
<tr>
<td>Table 7</td>
<td>Turkey Trade Performance per Product, year 2008</td>
<td>33</td>
</tr>
<tr>
<td>Table 8</td>
<td>Trade Balance Turkey and EU</td>
<td>36</td>
</tr>
<tr>
<td>Table 9</td>
<td>Export Import Turkey and EU per Product</td>
<td>37</td>
</tr>
<tr>
<td>Table 10</td>
<td>Main Trade Partner Turkey and EU</td>
<td>38</td>
</tr>
<tr>
<td>Table 11</td>
<td>Trade Balance Indonesia and Turkey (US$ million)</td>
<td>42</td>
</tr>
<tr>
<td>Table 12</td>
<td>Impact on Welfare (US$ million)</td>
<td>43</td>
</tr>
<tr>
<td>Table 13</td>
<td>Impact on Labor Demand</td>
<td>44</td>
</tr>
<tr>
<td>Table 14</td>
<td>Output Sector (%)</td>
<td>45</td>
</tr>
<tr>
<td>Table 15</td>
<td>Potential Product for Indonesia – Turkey</td>
<td>49</td>
</tr>
<tr>
<td>Table 16</td>
<td>Proposed Liberalization</td>
<td>51</td>
</tr>
<tr>
<td>Figure</td>
<td>Title</td>
<td>Page</td>
</tr>
<tr>
<td>--------</td>
<td>------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>Figure 1</td>
<td>Research Framework</td>
<td>4</td>
</tr>
<tr>
<td>Figure 2</td>
<td>Economic Integration</td>
<td>9</td>
</tr>
<tr>
<td>Figure 3</td>
<td>Multi region open Economy without Government intervention</td>
<td>16</td>
</tr>
<tr>
<td>Figure 4</td>
<td>Price Linkage</td>
<td>17</td>
</tr>
</tbody>
</table>