

CHAPTER 1 INTRODUCTION

1.1 Background

To increase Indonesian export, the Ministry of Trade (MOT) of Indonesia has prepared strategic plan through RENSTRA or *Rencana Strategis*. RENSTRA is a form of implementation of policies and programs in order to support the medium-term national development plan.

Currently, to accomplish its mandate and functions, the Ministry of Trade (MOT) has developed a road map to increase the export of 10 main commodities, 10 potential commodities and 3 services.

In addition, the MOT has arranged the trade cooperation between Indonesia and other countries in the form of bilateral, regional and multilateral. Furthermore, Indonesia uses ASEAN as a regional facility in a form of ASEAN cooperation such as between ASEAN with Japan, Korea, and China. Indonesia is a member of the WTO (World Trade Organization) where cooperation makes economic liberalization among member countries.

Currently, the trade cooperation is enhanced into bilateral cooperation because it is considered more effective because of the bilateral cooperation can be more directed to enhance the economy and reduces trade barriers, especially in the era of globalization.

Some bilateral free trade cooperation between Indonesia and other countries have been implemented such as with the Japan. Furthermore, another bilateral free trade cooperation will be implemented with Pakistan, EU (European Union), EFTA, Australia and New Zealand, India, China, Chile, and Turkey.

Particularly for Turkey FTA Bilateral cooperation, the initiation of the bilateral trade cooperation between Indonesia and Turkey have been implemented, namely is sidang Komisi Bersama Indonesia Turki (KBIT). Until now there are some meetings already held. Through KBIT, Indonesia Turkey trade have experienced remarkable enhancement. According to Directorate General of International Trade Cooperation

within the last five years (period 2001 – 2005) of trade with Turkey, Indonesia has experienced a surplus, with total trade value reached US\$ 634,7 million in 2005, with details the export is US\$ 565,8 million and the import is US\$ 68,8 million. In 2006 Indonesia and Turkey trade were increase US\$ 750 million with details, the export is US\$ 690 million and the import is US\$ 90 million, if the calculated average value of Indonesian export to Turkey during period 2001 – 2005 always happening enhancement of about US\$ 100 million per year, with the average export value is US\$ 320 million per year. The Indonesian trade to Turkey reached US\$ 2.1 billion in 2009 which has exceeded the target agreed in the Council of Joint Commission Indonesia Turkey to enhancing trade between both countries where the target is US\$ 2 billion. After the 7th to KBIT assembly held in Istanbul Turkey, again agreed to continue between both countries to enhance cooperation with target is US\$ 4.2 billion. By the increasing trade between both countries and also to facilitate the achievement of trade cooperation target, both countries agreed to form Two Joint Group that is more coordinated, the Comprehensive Trade and Economic Partnership (CTEP), which is directed towards the Free Trade Area. Based on the agreement the author felt attracted to do the research, How the impact of trade between both countries if did they do the trade liberalization or FTA.

From Indonesia perspective, Turkey has strategic market potential to become one of a way to accesses into EU market. And Turkey could seen Indonesia as one of a way to accesses into the ASEAN market.

1.2 Research Objectives

The objective of this study is to analyze the impact of Trade Liberalization between Indonesia and Turkey, there are:

1. To analyze the performance of trade between Indonesia and Turkey especially for major trade product.
2. To analyze the impact of tariff liberalizations performance towards Welfare, Trade Balance, Demand Skilled Labor and Un-Skilled Labor.

1.3 Scope of Research

In analyzing the trade performance, this study is limited for products with HS code two digit which is become main export product from Indonesia to Turkey, main import product to Turkey from the world with impose highest tariff for these products. In the case of impact of trade liberalization, this study is applying GTAP (Global Trade Analysis Project) Database and limited on result analysis Trade Balance, Welfare, and Labor Demand (skilled and un-skilled labor).

1.4 Research Methodology

In order to produce a comprehensive analysis, the data resource is based on the secondary data and information. The data is as following:

- A. The data was used in this research are:
 1. The data of trade from Ministry of Trade (MOT), Statistic Central Bureau (BPS), World Integrated Trade Solution (WITS), COMTRADE, and other sources which related with this research including electronic source.
 2. The GTAP data where is include in Global Trade Analysis Project (GTAP).
- B. The method for analysis as the following:
 1. Descriptive Analysis where is using the table to describes market share, intensity trade, trade specialization, and trade performance in main export products. There are some of methods are used in this research as follow.
 - a. Revealed Comparative Advantage Index (RCA).
 - b. Bilateral Trade Intensity Index (TII).
 - c. Trade Specialization Index (TSI).
 - d. Intra-Industry Trade Index (IIT).
 2. General Equilibrium Analysis to predict the impact of liberalization in food sector, manufacture sector, and service sector against the performance of trade and economy Indonesia and partner countries. Some of equation that is relevant to the results shown in the general equilibrium model in GTAP (Global Trade Analysis Project) is as follow:
 - a. Trade Balance
 - b. Welfare

c. Input Production Demand

1.5 Framework

The framework of research could be seen as below

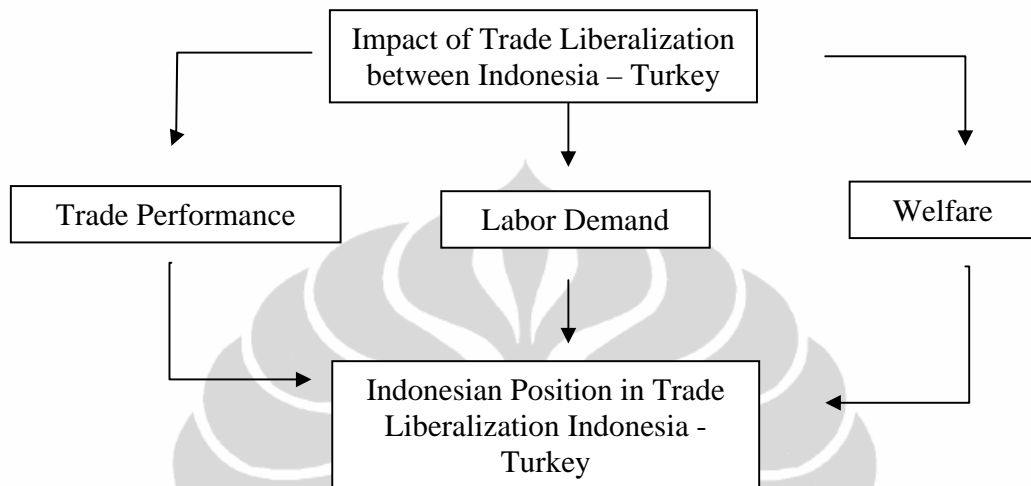


Figure 1 Research Framework

1.6 Thesis Organization

This study is divided into six chapters. First is the background of the research. Second is the literature study especially for theoretical. Third is the methodology for both data and analysis. Chapter fourth is describes the relationship between Indonesia and Turkey. Chapter fifth will contains analytical of the result. And the last are the conclusion and recommendation.