

Research article

Investigating the Impact of Indonesia-Turkey CEPA and Factors influencing Indonesian Export Performance

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Article Info: Received: 4 June 2022; Accepted: 7 July 2022; Published: 31 July 2022

Abstract: The Indonesia-Turkey Comprehensive Economic Partnership Agreement (IT-CEPA) is not solely about a trade agreement between the two countries but is a partnership and collaboration so that the people of the two countries can benefit from bilateral cooperation. This study aims to investigate the impact of IT-CEPA, foreign direct investment (FDI), inflation, natural resource rents, and government effectiveness on Indonesian exports to Turkey. The approach in this study applies a linear regression model from 2000-2020 sourced from the World Bank and The Observatory of Economic Complexity (OEC). The findings of this study indicate that foreign direct investment and government effectiveness have a positive sign and have a significant effect on Indonesian exports to Turkey. Meanwhile, IT-CEPA has a negative and significant sign on Indonesian exports to Turkey. However, inflation and natural resource rents do not have a significant effect on Indonesia's exports to Turkey. The implication of this study is that policy makers must pay attention to governance related to the implementation of economic partnership agreements between Indonesia and trading partner countries, especially in increasing Indonesia's exports to trading partner countries.

Keywords: IT-CEPA, FDI, inflation, natural resource rents, government effectiveness, exports

JEL Classification: F1, F4, F6, H2, O1

Abstrak: Indonesia-Turkey Comprehensive Economic Partnership Agreement (IT-CEPA) tidak semata-mata tentang perjanjian perdagangan antara kedua negara tetapi merupakan kemitraan dan kolaborasi sehingga masyarakat kedua negara dapat mengambil manfaat dari kerja sama bilateral. Studi ini bertujuan untuk menyelidiki dampak IT-CEPA, investasi asing langsung, inflasi, sewa sumber daya alam, dan efektivitas pemerintah terhadap ekspor Indonesia ke Turki. Pendekatan dalam studi ini mengaplikasikan model regresi linier dari tahun 2000-2020 yang bersumber dari Bank Dunia dan The Observatory of Economic Complexity (OEC). Temuan studi ini menunjukkan bahwa investasi asing langsung dan efektivitas pemerintah memiliki tanda positif dan berpengaruh signifikan terhadap ekspor Indonesia ke Turki. Sementara itu, IT-CEPA memiliki tanda negatif dan signifikan terhadap ekspor Indonesia ke Turki. Namun inflasi dan sewa sumber daya alam tidak memiliki pengaruh signifikan terhadap ekspor Indonesia ke Turki. Implikasi studi ini adalah pengambil kebijakan harus memperhatikan tata kelola pemerintahan terkait implementasi perjanjian kemitraan ekonomi antara Indonesia dan negara mitra dagang, terutama dalam meningkatkan ekspor Indonesia ke negara mitra dagang.

Keywords: IT-CEPA, FDI, inflasi, sewa sumber daya alam, efektivitas pemerintah, ekspor

How to Cite:

Darmawan, A., Husaini, M., Rakhmadi, R., & Ghania, A. (2022). Investigating the Impact of Indonesia-Turkey CEPA and Factors influencing Indonesian Export Performance. *Jurnal Ekonomi Pembangunan*, 20(1), 77-88. DOI: 10.29259/jep.v20i1.17790

1. INTRODUCTION

International trade is one of the driving forces of the economy and plays a strategic role in the economic growth of countries, including Indonesia. This is based on the increasingly integrated economy of countries in the world due to globalization, which facilitates the flow of information and goods and services from one country to another (Argentiero et al., 2021). International trade can benefit a nation by producing products that have a comparative advantage and encourage the entry of foreign investment into the country. Such investment can be a significant factor in driving development.

The domestic industry stimulates productivity with technology spillover (Yuliani et al., 2019). Additionally, international trade also allows a country to gain a broader market (Agung et al., 2019). On the other hand, it also provides an excellent opportunity to enter cheaper and quality foreign products into the domestic market (Rusmin et al., 2021). The trade war between the US-China has significantly changed the global trade map. The global economy that continues to lead an increasingly open world market also contributes to competitive pressure from each country to improve the competitiveness of its products (Saimul & Darmawan, 2020a). In line with this, the Indonesian government seeks to continue suppressing the trade war's impact. It is actively developing several diplomatic strategies and adopting an outward-looking trade policy through a series of bilateral and multilateral free trade agreements (Taufiqurrachman & Handoyo, 2021).

Table 1. Indonesia's top trading partners, 2017-2021

| Country | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------|----------|----------|----------|----------|----------|
| Singapore | 9,178.7 | 8,441.6 | 3,459.7 | 2,648.2 | 3,645.0 |
| China | 15,400.9 | 14,996.2 | 14,364.4 | 12,362.0 | 15,482.9 |
| Japan | 1,065.8 | 2,024.6 | 1,247.9 | 940.0 | 1,921.7 |
| USA | 13,316.0 | 16,775.9 | 14,382.4 | 6,178.8 | 10,384.2 |
| Turkey | 9,178.7 | 8,441.6 | 3,459.7 | 2,648.2 | 2,947.5 |

Source: Ministry of Trade, 2022

The most significant proportion of Indonesia's trading partners comes from countries in Asia, such as Singapore, Japan, and China. In addition, China and the United States also have the largest share in the volume of Indonesia's trade abroad. The exciting thing from the table above is that Turkish investment in Indonesia is in the range of US\$ 1.6-1.8 million and contributes about 0.41 percent of the total FDI in Indonesia. However, Turkey's investment value is still low or minimal compared to countries such as Singapore, Japan, and South Korea.

Indonesia has been involved in several Free Trade Agreement, both in a bilateral and regional framework, one of which is the Indonesia-Turkey Comprehensive Economic Partnership Agreement, commonly abbreviated as IT-CEPA (Rusmin et al., 2021; Taufiqurrachman & Handoyo, 2021). The IT-CEPA agreement is expected to strengthen economic ties between Indonesia and Turkey. Economic cooperation within the scope of IT-CEPA is an added value to implementing the free trade agreement between Indonesia and Turkey. In addition, Indonesia and Turkey also agreed to cooperate in the construction and development of infrastructure by moving the new capital city to Kalimantan and increasing the frequency of flights to and from the two countries. In addition, Indonesia and Turkey have started intensive talks to establish cooperation in the aerospace industry, electric cars, rocket/shuttle launch pads, satellites, satellite launch vehicles, medical technology, and pharmaceuticals (Cahyaningtyas & Aminata, 2020).

Turkey continues to cooperate with various countries globally as a country expanding its business to achieve buoyant net exports. Figure 1 reports that Turkey's total export growth leads to American and European countries. This is based on geographical proximity and access points and high demand by the country. The IT-CEPA agreement will significantly increase Indonesia's exports to Turkey by eliminating trade barriers between the two countries, both tariff and non-tariff (Taufiqurrachman & Handoyo, 2021). These negotiations are also expected to restore Indonesia's export performance to Turkey, which was not yet optimal from 2012-2018. The main problem Indonesian products face in the Turkish market is higher import duty rates and additional

duties than our competitor countries with agreements with Turkey. Therefore, the two countries continue to discuss plans for reducing and eliminating tariffs and various issues related to customs, goods quarantine, legal matters, trade facilities, and security.

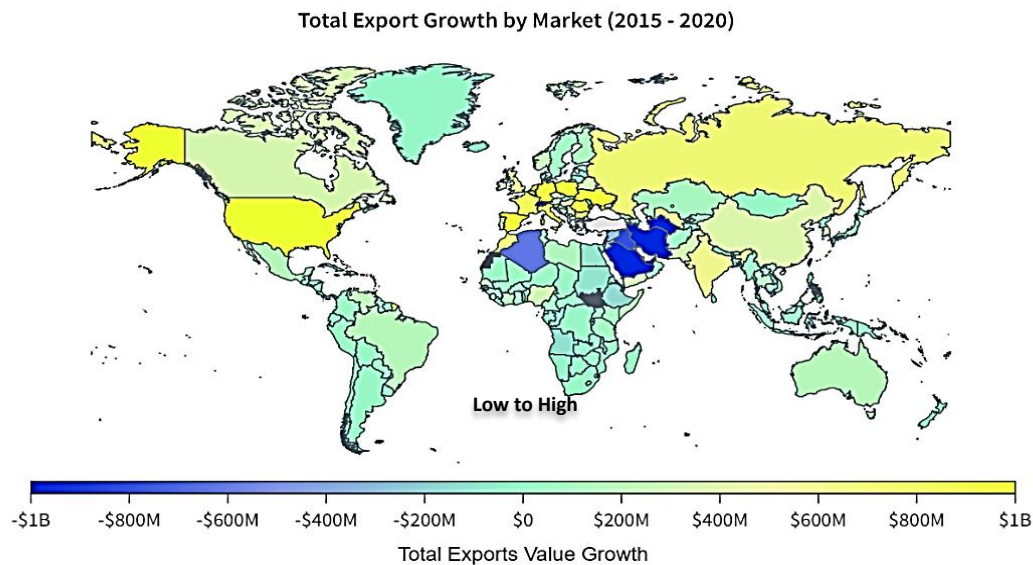


Figure 1. Turkey major trading partners' countries, 2015-2020
 Source: The Observatory of Economic Complexity, 2021

Figure 1 reports also that Indonesia's exports to Turkey are dominated mainly by the secondary and tertiary sectors, wherein in 2014, Indonesia recorded the highest exports in the textile industry (Bappenas RI, 2021). Furthermore, the expansion of trade to Turkey gained more attention for Indonesian investors due to the comprehensive market and high consumer definition, which become more variety for sale products. IT-CEPA is not solely about a trade agreement between two countries but is a partnership and collaboration so that the people of both countries can benefit from this bilateral cooperation. Indonesia is a strategic trading partner for Turkey to increase trade in the Asia Pacific region in investment, including tourism and services. As for Indonesia, Turkey is a gate to enter the Middle East, Africa, and European markets.

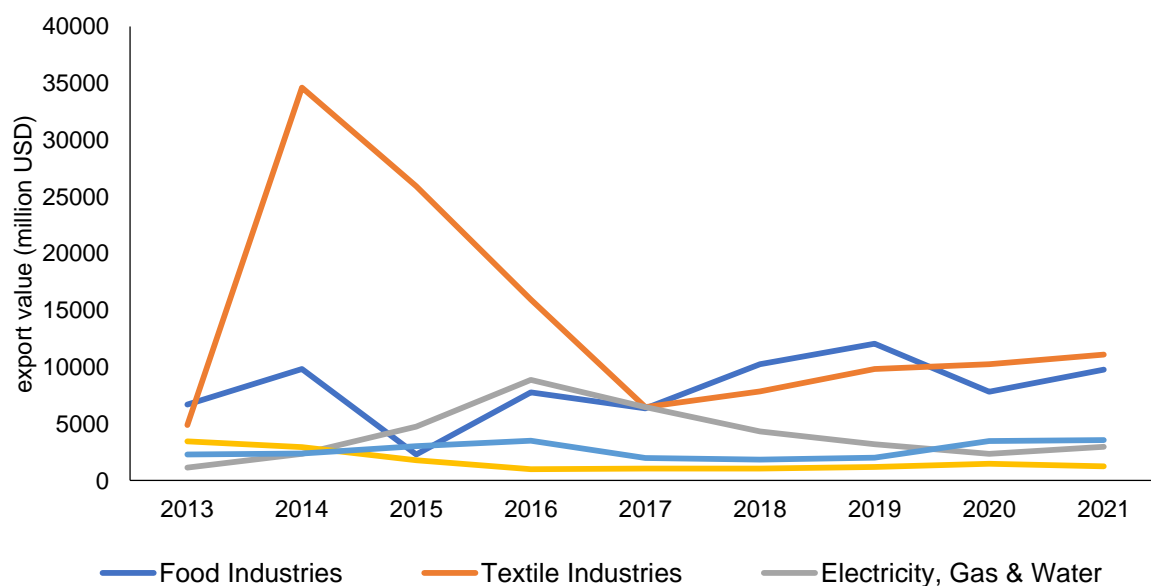


Figure 2. Indonesian exports to Turkey, 2013-2021
 Source: The Observatory of Economic Complexity, 2022

International trade encourages economic development (Pontes & Pires, 2021). In a narrow sense, international trade is a group of problems arising from exchanging commodities between countries. International economics uses the same basic analytical methods as other branches of economics because the motives and behavior of individuals and firms in international trade are the same as those found in domestic transactions (Krugman, Obstfeld, & Melitz, 2015). Study by Ardiyanti (2015) found that international trade can benefit a country by producing products that have a comparative advantage and encourage foreign investment. Based on data published by The Observatory of Economic Complexity (OEC), the main products exported from Indonesia to Turkey are Palm Oil, Rubber, and Unprocessed Artificial Staple Fibers. Over the past 25 years, Indonesia's exports to Turkey have increased at an annual rate of 8.17 percent, from USD.167 million in 1995 to USD.1.19 billion in 2020. This is in line with the statement presented by Statista Research Department (2022), where the value of non-renewable resources is primarily determined by the relative scarcity of resources in combination with their exploitation for industrial use. This means that natural resources that can be found on the territory of a country often decide its position in the global economy and thus its political influence. However, industrialized countries rely less on natural resources for their wealth because they have more infrastructure capital. Given its economic situation, Indonesia relies on depleting natural resources. Thanks to its geological location and vast surface area, Indonesia is rich in resources. It can produce a wide variety of minerals at a very high level.

Additionally, international trade is also helpful for protecting new industries in developing countries (infant industries) from the competition with imported goods. Protection can be utilized by implementing various international trade policy tools such as tariff and non-tariff trade barriers. International trade policies can also support free trade policies or trade liberalization to encourage a country to specialize in producing goods with a comparative advantage (Nairobi & Respitasari, 2021). Trade liberalization is an economic concept to reduce trade barriers in goods, services, and investments (Benny, 2013). Liberalization acts as intensive use of price mechanisms to minimize the anti-export bias of the trade regime (World Trade Organization, 2021). Many countries, such as Indonesia-Japan (IJ-EPA), enter bilateral trade agreements. This reduces trade barriers, encouraging consumer surplus and increasing innovation and trade volume. The study findings by Astriyany & Takahashi (2021) explain that trade liberalization can positively influence the technical efficiency of companies to encourage a competitive climate through export-import competition. The study Saimul & Darmawan (2020b); Wibowo (2015); and Wuri (2018) also supports the theory that opening international trade doors will result in additional economic welfare in the form of a higher equivalent variation.

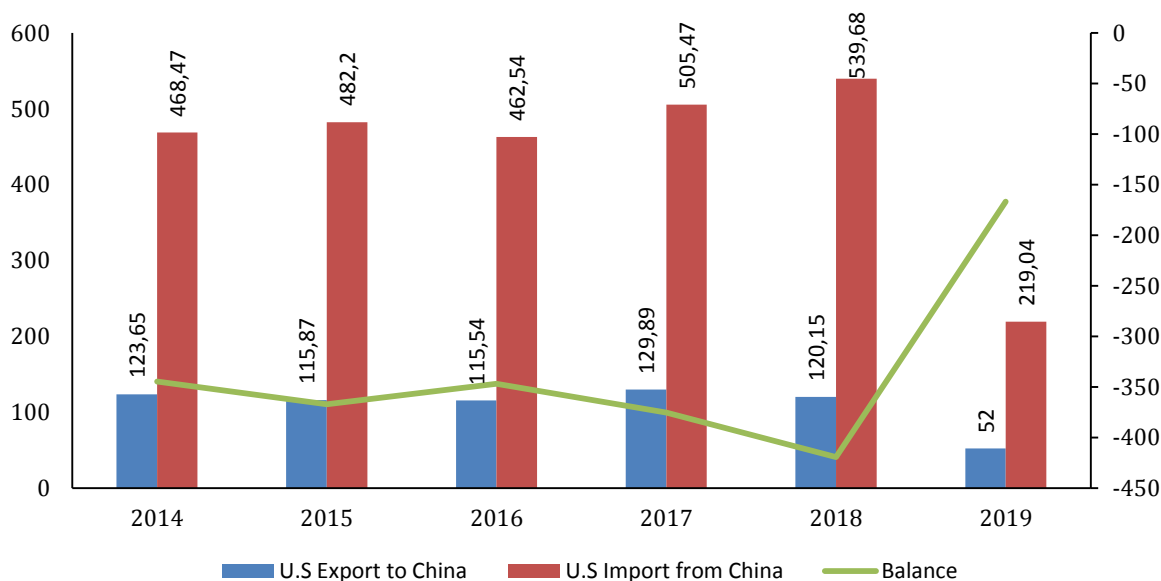


Figure 3. The U.S - China trade balance deficit, 2014-2019

Source: Statista Research Department (2020)

Figure 3 reports that partly reflected China's trade balance with the USA with the main depreciation above USD to boost China's trade balance with the USA. From 2014 to 2019, USA imports to China were mainly higher than exports. The actual causes of the USA trade deficit with China may be the relocation of production to China, low savings in the USA and increased savings in China, and the U.S. dollar as the international currency and reserve (Wang, 2020).

Several previous studies that examined the impact of bilateral agreements on a country's trade performance include a study conducted by Ardiyanti (2015) found that the Indonesian-Japan Economic Partnership agreement (IJ-EPA) free trade agreement changed Indonesia's import pattern from Japan, where some products experienced a surge, such as trade in motor vehicles and diesel engines. On the other hand, the implementation of the IJ-EPA does not have a significant impact on the pattern of Indonesia's exports to Japan. Study conducted by Zulfira (2019) found that no significant difference between Indonesian exports to Japan before and after the IJ-EPA, and there was a substantial difference between Indonesian imports from Japan, Indonesian foreign investment from Japan, and the exchange rate before and after the IJ-EPA. Study conducted by Ingot & Hastjarjo (2017) found that the E.U. and Indonesia are quite complementary in terms of trade in goods and services. Therefore, the potential benefits of signing the Comprehensive Economic Partnership Agreement (CEPA) are significant. Study conducted by Avivi (2020) found that Indonesia will continue to strive to realize its national interests through this cooperation. This cooperation is expected to continue to improve good economic relations between Indonesia and Japan. Sonny (2020) found that the trade war between the United States and China also provided an opportunity to fill the market void of the two countries. Additionally, Indonesia also has the potential to become a country that is considered a significant power rivalry in geopolitical and geoeconomic escalation. Because Indonesia has abundant natural resources, it can create new sources of investment.

Following a study conducted by Zulfira (2019) and Sonny (2020), However, this study looks at a different case by considering the bilateral relationship between Indonesia-Turkey (IT-CEPA) and its impact on Indonesia's trade performance. The novelty of this study considers economic institutions explicitly to the field of international trade. Previous studies that became the main contributors have been carried out by Anderson & Marcouiller (2002) and De Groot et al. (2004) have considered the analysis of economic institutions explicitly in influencing international trade. Their recent contribution combines the study of institutional effects in theoretical models with empirical estimates of the impact of government effectiveness on trade. Therefore, this study aims to investigate the impact of IT-CEPA and other factors such as foreign direct investment, inflation, natural resource rents, and government effectiveness on Indonesian exports to Turkey. The contribution of this study is expected to be a material for discussion and input for policy makers and stakeholders on the latest economic developments by considering the impact of IT-CEPA on Indonesia's trade performance. The study can also help assess the initial impact of the implementation of the agreement, which will begin in 2021.

2. RESEARCH METHODS

2.1. Data

This study brings data from the World Bank and The Observatory of Economic Complexity (OEC) to start with predetermined variables. The observation period of this study is from 2000-2020. Using a linear regression model approach to determine the impact of IT-CEPA, foreign direct investment, inflation, natural resource rents, and government effectiveness on Indonesian exports to Turkey. The IT-CEPA is the initial impact of how policies can adjust and affect the value of Indonesian export to Turkey. The export (EXP) is the value of exports from Indonesia to Turkey measured in USD in million; foreign direct investment (FDI) is inflows from other countries measured as a percent of GDP; inflation (INF) is measured in percent; natural resource rent is the total rent of natural resources is the amount of rent for oil, rent for natural gas, rent for coal (hard and soft), rent for minerals, and rent for forest measured in percent of GDP; government effectiveness is the perception of the quality of public services, the degree of independence from

political pressure, the quality of policy formulation and implementation, and the credibility of the government's commitment to a policy; and the Indonesia-Turkey Comprehensive Economic Partnership Agreement (IT-CEPA), where 1 if there are stages of the IT-CEPA process measured from formulation to implementation, and 0 if there is no IT-CEPA process.

Table 2. Data description

| Variables | Measurement | Source |
|--|------------------------------|------------------|
| • Indonesian export to Turkey (EXP) | • Export value (million USD) | • The OEC |
| • Foreign direct investment (FDI) | • Percent to GDP (%) | • The World Bank |
| • Inflation (INF) | • Percent (%) | • The World Bank |
| • Natural resource rent (NRR) | • Percent to GDP (%) | • The World Bank |
| • Government effectiveness (GOVEFF) | • Index | • The World Bank |
| • Indonesia-Turkey Comprehensive Economic Partnership Agreement (ITCEPA) | • Dummy, 0 and 1 | |

2.2. Model specification

To find out the impact of IT-CEPA, foreign direct investment, inflation, natural resource rent, and government effectiveness on Indonesian exports to Turkey. We used a linear regression model with the Ordinary Least Squares (OLS) method. This method will produce the best estimate compared to other methods if all classical assumptions have been passed. The specifications of this model are presented as follows:

$$EXP_t = \beta_0 + \beta_1 FDI_t + \beta_2 INF_t + \beta_3 NRR_t + \beta_4 GOVEFF_t + \beta_5 ITCEPA_t + e_t \quad (1)$$

where: EXP_t is the Indonesian exports to Turkey measured by million USD; FDI_t is foreign direct investment (FDI) measured by percent of GDP; INF_t is inflation measured by percent; NRR_t is natural resources rent measured by percent of GDP; $GOVEFF_t$ is government effectiveness measured by index; $ITCEPA_t$ is the dummy variable of 1 if the process of IT-CEPA and 0 if no process; β_0 is constanta, $\beta_1 - \beta_5$ is parameters coefficient in the variables, t is time series; and e is the error term.

3. RESULTS AND DISCUSSION

In this session, we present the descriptive statistics in Table 3, we report the mean, median, maximum, minimum, standard deviation, and Jarque-Bera test, information as a more detailed structural basis for the variables used.

Table 3. Descriptive statistics

| Descriptive | EXP | FDI | INF | ITCEPA | NRR | GOVEFF |
|-------------|-----------|-----------|----------|----------|----------|-----------|
| Mean | 1205.900 | 1.498619 | 6.511397 | 0.200000 | 6.395691 | -0.182500 |
| Median | 1335.000 | 1.820309 | 6.213591 | 0.000000 | 6.397562 | -0.250000 |
| Maximum | 2010.000 | 2.916115 | 13.10867 | 1.000000 | 11.30165 | 0.370000 |
| Minimum | 210.0000 | -1.855686 | 1.920968 | 0.000000 | 2.612890 | -0.480000 |
| Std. Dev. | 523.8983 | 1.181907 | 3.246197 | 0.410391 | 2.633236 | 0.232444 |
| Skewness | -0.437983 | -1.276726 | 0.684674 | 1.500000 | 0.132573 | 0.875197 |
| Kurtosis | 2.280104 | 4.307083 | 2.336717 | 3.250000 | 1.891221 | 2.895684 |
| Jarque-Bera | 1.071304 | 6.857150 | 1.929214 | 7.552083 | 1.083077 | 2.562299 |
| Probability | 0.585287 | 0.032433 | 0.381133 | 0.022913 | 0.581853 | 0.277718 |

Source: Authors calculation

The number of observations during 2001-2020, obtained from the years used in this study. The average value of the EXP variable is 1205.900. The maximum value of the EXP variable is 2100,

while the minimum value is 210, for the value of deviation standard is 523.8983. The average value of the variable FDI is 1.498619. The maximum FDI value is 2.916115, while the minimum FDI value is -1.855686. For the value of deviation standard of FDI is 1.181907. Next is related to the average value of the INF variable is 6.511397. The maximum value of the INF variable is 13.10867, while the minimum value of INF is 1.920968. For the value of deviation standard of the INF is 3.246197.

The average value of the ITCEPA is 0.20. The maximum value of the ITCEPA is 1.00, while the minimum value of ITECEPA is 0.00. For the value of deviation standard of the ITCEPA is 0.410391. The average value of the NRR is 6.395691. The maximum value of the NRR is 11.30165, while the minimum value of NRR is 2.612890. For the value of deviation standard is 2.633236. The average value of the GOVEFF is -0.182500. The maximum value of the GOVEFF is 0.370000, while the minimum value of GOVEFF is 0.480000. For the value of std. deviation is 0.232444.

The normality test presented in Table 4 shows that the Jarque-Bera test is 0.3725 with a probability of 0.830058 at a significant level of 5 percent, this implies that the data is normally distributed. The multicollinearity test presented in Table 4, the value of the variance inflation factor (VIF) is less than 5, this implies that all independent variables do not have multicollinearity problems. Meanwhile, using the Breusch-Pagan heteroscedasticity test presented in Table 4, the chi-square value (χ^2) is 0.9943 with a probability of 0.3871 at a significant level of 5 percent, so it can be concluded that there is no heteroscedasticity problem. Finally, the LM test of the Breusch-Godfrey correlation obtained a chi-square value (χ^2) of 0.6382 with a probability of 0.3823 at a significant level of 5 percent. This implies that there is no autocorrelation problem.

Along with these results, the summary model provides information that the coefficient of determination (R^2) is 0.823638, this implies that variations in ITCEPA, foreign direct investment, inflation, natural resource rents, and government effectiveness can explain variations in Indonesia's exports to Turkey by 82.36 percent and of the remaining 17.63 persen explained by other variables. Meanwhile, the F-test result is 13,07644 with a probability of 0.000, this implies that jointly, ITCEPA, foreign direct investment, inflation, natural resource rents, and government effectiveness on Indonesian exports to Turkey.

Table 4. The result for regression model estimation

| Dependent variable: EXP | | | | | |
|---------------------------|-------------|------------|-------------|--------|----------|
| Variables | Coefficient | Std. Error | t-Statistic | Prob. | VIF |
| <i>Constant</i> | 1431.375 | 239.9769 | 5.964636 | 0.0000 | - |
| <i>FDI</i> | 296.0003 | 54.18704 | 5.462567 | 0.0001 | 1.186278 |
| <i>INF</i> | -33.62585 | 27.54724 | -1.220661 | 0.2424 | 2.312784 |
| <i>NRR</i> | -2.775321 | 33.82170 | -0.082057 | 0.9358 | 3.180753 |
| <i>GOVEFF</i> | 1448.103 | 538.9214 | 2.687038 | 0.0177 | 2.294032 |
| <i>ITCEPA</i> | -840.4314 | 255.5361 | -3.288895 | 0.0054 | 4.538549 |
| Summary: | | | | | |
| R^2 | 0.823638 | | | | |
| <i>Adj. R²</i> | 0.760652 | | | | |
| <i>F-statistic</i> | 13.07644 | | | | |
| <i>Diagnostics test:</i> | | | | | |
| <i>Jarque-Bera test</i> | 0.3725 | | | | |
| <i>White test</i> | 0.9943 | | | | |
| <i>Serial LM test</i> | 0.6382 | | | | |

Source: Processed Eviews, 2022

Table 4 reports that the results of this study are the FDI has a positive and significant effect on Indonesian export to Turkey. The FDI coefficient is 296.0003, this implies that if the increase in FDI by 1 percent, it will increase Indonesian export to Turkey by 296.0003 Million US\$. This also confirms the results of research which are in line with study by Mukhtarov et al. (2019) found a positive and statistically significant impact of FDI on exports in the long run. Furthermore,

Mukhtarov et al. (2019) explain that these results are consistent with the logic of Jordanian economic theory and economic realities during the studies showing that exports are developing and growing in the same direction as foreign direct investment. Because foreign companies invest not only to supply the local market but also overseas markets, especially the Gulf Arab market. The results of this study are consistent with many previous studies, such as study by Njong and Tichakount'e (2011); Achandi (2011); Haq (2012); Selim et al. (2016); and Purusa & Istiqomah (2018).

Another result presented by the inflation has insignificant effect on Indonesian export to Turkey, this implies that increase in inflation by 1 percent, to decrease Indonesian export to Turkey by 33.62585 Million USD. The result is consistent with Ilmas et al. (2020), where analysis shows that inflation and exchange rates negatively affect exports in five ASEAN countries, which means that if inflation or exchange rates in a country increase, exports will decrease and vice versa. Inflation continuously increases the general price of goods over a certain period; the inflation rate weakens the trade balance. This is because inflation will cause a weakening of competitiveness and ultimately lead to a decrease in exports. Purusa & Itiqomah (2018) also state that there is a negative influence of inflation on export volumes. The results showed that the continuous increase in the price of goods would reduce exports. The price increase will lead to competition between local and imported products, affecting the pricing policy (Kamin & Klau, 2003). Inflation can cause an increase in input prices, thereby reducing company productivity (Dritsakis, 2004; Narayan & Smyth, 2011). Therefore, the high production cost will reduce one country's competitiveness compared to other countries (Sinn, 2014). Furthermore, in trade relations between Turkey and Indonesia, dumping activities are often an obstacle and sometimes a cause of tensions in the trade sector between these two countries. In its journey, both parties repeatedly voiced allegations of dumping practices. These two problems are also supported by the fact that the IT-CEPA agreement has not yet been implemented; this study uses the distinction between before and after the IT-CEPA negotiation process. Policies related to tariffs and antidumping had not changed in the negotiation process compared to before the IT-CEPA negotiation process was implemented. Based on export data from The Observatory of Economic Complexity in the decade of the negotiation process that began in 2017, Indonesia's exports experienced a decline, while contrary to that, Turkey's exports to Indonesia experienced a relatively high increase from 2016 - 2018. Soon after, it faced a global crisis pandemic that caused the global economy to slow down, so exports from both countries experienced a slowdown.

The next finding show that the natural resource rent (NRR) has a insignificant effect on Indonesian export to Turkey. This implies that if the NRR increases by 1 percent, it will increase Indonesian export to Turkey by 2.775321 million USD. Increased rental prices of natural resources can lead to a decrease in the interest of other countries in importing. The high rental cost of natural resources has caused some countries to restrict importing natural resources from other countries. As a result, increased rents of natural resources can reduce the exports of countries with abundant natural resources. The World Trade Organization (2010) describes that a country initially well endowed with non-renewable resources will specialize in that resource sector, and in the rather intensive production of goods using those resources. In other words, even when limited resources are involved, trade patterns (i.e., which countries export and import) are still explained by comparative advantages driven by differences in resource endowments. The welfare advantage of trade is still possible because specialization allows the efficient allocation of limited resources. Importantly, in this environment, natural resources are not overexploited because the extraction is established (either by social planners or by competitive producers) to maximize the social welfare of present and future generations. This is not to say that trade never leads to overexploitation of limited resources. Still, overexploitation is somewhat affected by the opening of trade only when market failures (such as imperfect competition or externalities) or political economy failures (such as rent-seeking or corruption) are involved.

The government effectiveness has positive sign and significant effect on Indonesian export to Turkey, this implies that if government effectiveness index is increased by 1, will increase Indonesian export to Turkey by 1448.103 USD. This result is consistent with the statement of

Setyastuti et al. (2018) that the impact of governance on trade intensity is tremendous. These results show that the cost of trade associated with institutional effectiveness significantly affects bilateral trade flows. Therefore, countries must improve the quality of governance to improve their bilateral trade. This reinforces the argument of De Groot et al. (2004). They said the effectiveness of domestic institutions in ensuring and enforcing rules in economic exchange would largely determine the cost of a trade.

Finally, the IT-CEPA surprisingly has a negative and significant effect on Indonesian export to Turkey. The result concludes that there is a difference in Indonesian export to Turkey after IT-CEPA of 840.4314 million USD compared to before the existence of IT-CEPA. Or in other words, after the IT-CEPA process, Indonesia's exports of 840,4314 million USD is lower than before the IT-CEPA process, assuming other free variables are constant. Import duties often constrain Turkey and Indonesia's trade relations and export duties applied by the two countries. In 2016, the trade value between Turkey and Indonesia broke 1.3 billion USD. However, the trade figure with Indonesia fell by 14 percent from the previous year, while Turkey's trade with Malaysia increased by 49.11 percent. This happens because Turkey and Malaysia already have a Free Trade Agreement, so the two countries have waived trade tariffs for several commodities that have been agreed upon, including Crude Palm Oil (Pujiati et al., 2014).

4. CONCLUSIONS

The consistency of the Indonesia-Turkey Comprehensive Economic Partnership Agreement (IT-CEPA) negotiation process which took place in 2017 showed surprising results regarding its impact on Indonesian exports to Turkey. The results of this study illustrate that the existence of IT-CEPA causes Indonesia's exports to Turkey to be less than before the consultation regarding the IT-CEPA agreement. On the other hand, the decline in exports felt by Indonesia was not only due to the IT-CEPA, but other factors that affected Indonesia's exports to Turkey including FDI and the effectiveness of the government's role had a significant effect on Indonesia's exports to Turkey. This implies that the growth of foreign direct investment in the last 10 years in Indonesia increased by 6.4 percent year-on-year in the fourth quarter of 2019, following a 17.8 percent jump in the previous three-month period. However, the surge in FDI was not accompanied by government effectiveness; The Indonesian government's effectiveness index still shows a relatively poor performance. Therefore, the government must also pay attention to how governance is carried out, especially in increasing exports to trading partner countries.

On the other hand, although the natural resources sector is one of the most vital sectors in Indonesia's exports to Turkey; however, in the long run, the rental price of Indonesia's natural resources has no significant effect on Indonesia's exports to Turkey. This implies that Indonesia's natural resources are one of the imports that Turkey needs, so the increase in rental prices does not affect Indonesia's exports to Turkey. Meanwhile, inflation also shows an insignificant effect on Indonesia's exports to Turkey in the long term. However, rising inflation still causes a decline in Indonesia's exports to Turkey. Inflation continuously increases the general price of goods over a certain period; inflation rate weakens the trade balance. This is because inflation will lead to a weakening of competitiveness and ultimately lead to a decline in exports.

ACKNOWLEDGMENTS

Thanks to LPPM Universitas Lampung for granting the fund to support this research through the DIPA-BLU scheme in 2021. Indeed, we are sincerely grateful to have Ms. Widya Rizki for her support for the initial idea of this study.

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