Analysis of Implementation Indonesia-Japan Economic Partnership Agreement (IJEPA) Toward Export Value Growth in Indonesia

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Abstract

This study aims to analyze the impact of the Indonesia-Japan Economic Partnership Agreement (IJEPA) bilateral trade agreement on Indonesia's export value in the long term. The secondary data time series used for the research is from 2005Q1 to 2019Q4, and the research method employed is the VECM (Vector Error Correction Model). The results of the VECM analysis show that the IJEP bilateral agreement has a significant negative effect, the inflation variable has a significant positive effect, and the FDI and exchange rate variables have a negative but not significant effect on the value of Indonesia's exports to Japan. Implementation of the recommended policies to increase export value and economic growth, namely compliance with product standardization, especially for destination countries, actively and openly providing information related to the IJEPA tariff scheme and utilizing capacity building.

Keywords: Bilateral Trade, Export Growth, IJEPA, VECM, Macroeconomics

Analisis Implementasi *Indonesia-Japan Economic Partnership Agreement* (IJEPA) Terhadap Pertumbuhan Nilai Ekspor di Indonesia

Abstrak

Penelitian ini bertujuan untuk menganalisis dampak perjanjian perdagangan bilateral IJEPA (*Indonesia-Japan Economic Partnership Agreement)* terhadap nilai ekspor indonesia dalam jangka panjang. Metode penelitian yang digunakan yaitu metode VECM (*Vector Error Correction Model*) dengan data sekunder *time series* dari tahun 2005Q1 sampai dengan 2019Q4. Hasil analisis VECM menunjukkan bahwa perjanjian bilateral IJEP memiliki pengaruh yang negatif signifikan terhadap nilai ekspor Indonesia ke Jepang. Sedangkan variabel inflasi memiliki pengaruh yang positif dan signifikan terhadap nilai ekspor Indonesia dan variabel FDI dan exchange rate berpengaruh negatif namun tidak signifikan. Implementasi kebijakan yang disarankan guna meningkatkan nilai ekspor dan pertumbuhan ekonomi yaitu pemenuhan standarisasi produk terutama terhadap negara tujuan, giat dan terbuka memberikan informasi terkait skema tarif IJEPA dan memanfaatkan *capacity building*.

Kata kunci: Perdagangan Bilateral, Pertumbuhan Ekspor, IJEPA, VECM, Makro Ekonomi

INTRODUCTION

Economic openness is one approach for a country to retain stability and existence while also growing its economy. Financial and trade transmission is one type of openness that is now being implemented in the global economy (Yuliati, Atmaja, & Lestari 2020). Bilateral

trade agreements, regional trade agreements, and multilateral trade agreements are all examples of legal agreements that control commerce between countries. Because trade liberalization, particularly in the food security sector, is crucial in the trade bloc, policy intervention through trade agreements that could foster excellent cooperation among countries is required (Kipkorir and Khanser 2015). The IJEPA trade agreement between Indonesia and Japan is one example of a bilateral trade agreement. IJEPA (Indonesian-Japanese Economic Partnership Agreement) is a bilateral agreement between Indonesia and Japan. In the meanwhile, Japan has signed bilateral agreements with three nations prior to the IJEPA agreement: Singapore (13 January 2002), Mexico (17 September 2004), and Malaysia (13 December 2005) (Arifin, Rae, and Joseph 2004).The International Joint Economic Partnership Agreement (IJEPA) was signed on August 20, 2007, and went into force in 2008. The IJEPA bilateral trade agreement took place in an uneven situation, with Japan, as a developed country, having negotiated bilateral agreements with other countries on multiple occasions, but Indonesia, as a developing country, establishing a bilateral trade agreement first. The IJEPA trade agreement has a broad scope and intends to expand the two nations' economic engagement, including collaboration in the areas of capacity building, liberalization, increased trade, and investment targeted at enhancing the flow of goods across the border (Salam, Rayadiani, and Lingga 2012).

Japan is a developed country with a GDP of USD 4.8 trillion, the third largest in the world behind the United States and China (Kementerian Perdagangan 2018). Japan was Indonesia's second-largest export destination and third-largest import source in 2017. In 2017, exports of USD 17.79 billion and imports of USD 15.24 billion totaled USD 33.03 billion in commerce between Indonesia and Japan. Coal, copper ore, precious metal scraps, natural rubber, and insulated wire are some of Indonesia's most popular exports to Japan. Motorized vehicles, motor vehicle components, printing machines, cars and other vehicles, as well as rolled concrete iron goods, are among the products imported from Japan (Kementerian Perdagangan 2018).

As demonstrated in Figure 1, the value of Indonesia's oil and gas exports as well as non-oil exports to Japan continued to rise prior to the IJEPA trade agreement. Indonesia's oil and gas exports increased somewhat in 2008, but non-oil and gas exports declined, owing to shocks from external factors brought on by the global financial crisis. The financial crisis impacted not only international trade performance, as evidenced by the drop in non-oil and gas exports, but also macroeconomic fundamentals and financial stability. Figure 1 also shows that Indonesia's non-oil and gas exports to Japan have been steadily increasing year after year, with non-oil exports increasing significantly in 2018 compared to the previous two years. Even in 2018, Indonesia's economy grew at a relatively high rate compared to the previous year, at 5.17 percent (Kementerian Keuangan RI 2019). However, it is evident that Indonesia's oil and gas exports are still volatile, and their value remains low.

Meanwhile, the flow of Japanese imports to Indonesia is shown in Figure 2 as oscillating. Internal and external factors are driving this disease. Internal causes might occur as a result of issues in bilateral relations between the two countries. Meanwhile, shocks and

global economic uncertainty might produce external factors that have a direct impact on
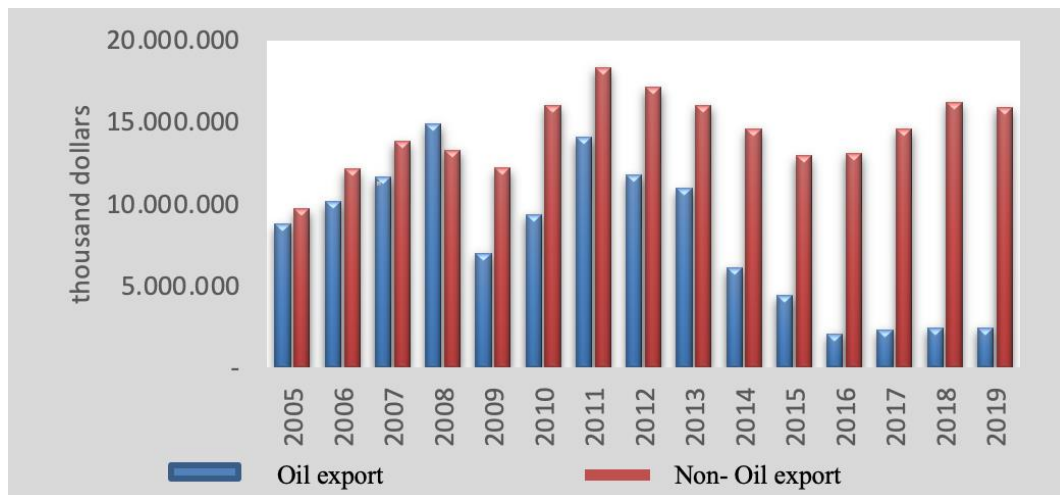

Figure 1. Indonesian exports to Japan in 2005-2018 (Ministry of Trade, processed)
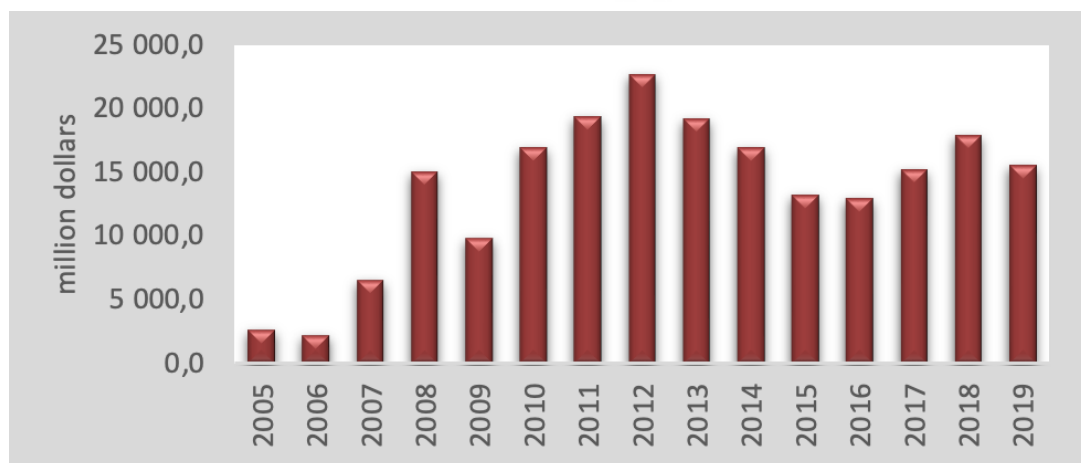

Figure 2. Indonesia's imports from Japan in 2007-2017 (Ministry of Trade, processed)

import performance.

Figure 2 shows that non-oil and gas imports from Japan increased significantly, whereas oil and gas imports from Japan were very modest and even dropped frequently (Kementerian Perdagangan 2018). However, due to increased non-oil and gas imports from Indonesia, Japan had a trade surplus against Indonesia in April 2018. However, Indonesia had previously reported a surplus in the oil and gas sector but a deficit in non-oil and gas commerce in the preceding month (Kementerian Perdagangan 2018). The exports and imports of Indonesia and Japan both increased and decreased. The graph shows that Indonesia's exports and imports increased significantly in 2008, when the IJEPA was initially introduced, but that both exports and imports declined the following year.

According to empirical studies on bilateral trade by (Salam et al. 2012) the Indonesia-Japan trade agreement (IJEPA) has an impact on changes in Indonesia's import patterns from Japan, but not on changes in Indonesia's export patterns to Japan. According to research (Firdaus 2014), the IJEPA's implementation had a negligible and negative

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influence on Indonesia's trade balance. This is reflected in the value of the trade deficit that existed at the time of the agreement's entry into force. In the meanwhile, empirical research (Setiawan 2012) have shown conflicting results. According to the findings of his research, both Indonesia and Japan profit from increased exports, which has an effect on national income. According to research (Ardiyanti 2015), Indonesia's non-oil exports to Japan have increased significantly, but the value of Indonesia's imports from Japan has not changed significantly. Furthermore, study (Gocklas C.S and Sulasmiyati 2017) based on the results of the analysis found that Indonesia's exports to Japan grew compared to before the IJEPA trade agreement, while the value of Indonesian imports from Japan also increased.

The author of this study wants to analyze the impact of IJEPA implementation on Indonesia's trade balance, especially Indonesia's exports to Japan. The novelty of this study analyzes whether it is true that Indonesia's balance sheet, especially Indonesia's exports to Japan, does not demonstrate significant changes in the existence of IJEPA. Due to the hope that with the implementation of the IJEPA agreement, Indonesia could increase its exports through trade liberalization and the removal of barriers and tariffs on trade between Indonesia and Japan. This study includes analyzing the impact of IJEPA by considering macroeconomic variables such as exchange rate, inflation and FDI.

Literature Review

This has been supported by empirical research that shows international commerce is one of the elements determining economic growth (Hasoloan 2013). Trade, according to (Salvatore 2013), can be a growth driver. Meanwhile, based on Hecksher and Ohlin's (HO theory) theoretical study, which proposed modern trade theory as a refinement of Ricardian theory, it was said that international commerce would be achieved due to the various supporting components possessed by the state (Kementerian Perdagangan Republik Indonesia 2015). According to the HO theory, a country will export items that absorb cheaper manufacturing elements while importing expensive and rare production factors (Piros and Pinto 2013; Salvatore 2013).

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Eli Heckscher (1919) and Bertil Ohlin (1919) pioneered the HO trade hypothesis (Heckscher & Ohlin) (1933). This theory is sometimes referred to as the modern international trade theory since it explains aspects of international trade that David Ricardo's theory of comparative advantage could not. Bertil Ohlin's book Interregional and International Trade, based on his master Eli Heckscher's writings, published in 1933, was the first to present this modern view of international trade. This HO theory develops as a result of the lack of a classical theory that explains how disparities in the elements of production function lead to international trade. The classical theory, on the other hand, is unable to explain why disparities in the elements of production function might exist between the two countries (Salvatore 2013). Then this modern theory began to explain that the production function in both countries is the same, but what causes the difference is the percentage of ownership of the production elements, which is why Heckscher and Ohlin's modern theory is known as Factor Proportions Theory (Tampubolon 2020). Heckscher Ohlin's theory also shows that each country's advantages are based on variations in the richness of its production factors, whether in the form of labor or capital.

The Heckscher-Ohlin trade theory is based on several basic assumptions, including: (1) there are only two countries, A and B; (2) there are only two commodities, Y and Z; and (3) there are only two sources of production, labor and capital. (2) Both countries are technologically advanced. (3) Commodity Y is labor-intensive, while commodity Z is capital-intensive, and both countries are affected. (4) Based on the yield scale, both commodities are produced equally. (5) The production specialization carried out by the two countries is still incomplete and insufficient. (6) Consumer preferences and wants are similar in both countries. (7) Both product and factor markets have perfect competition. (8) Perfect factor mobility exists only inside countries, not across countries. (9) There are no trade hurdles between the two countries in terms of transportation costs, tariffs, or other restrictions. (10) In the production process, all sources of production components can be fully utilized. (11) There must be a full balance of international trade between country A and country B (Salvatore 2013).

The core of Heckscher-international Ohlin's trade theory (HO Theory) are two theorems: the first is to analyze and predict trading patterns, and the second is the factor-Price Equalization Theorem. to examine the impact of international trade on the prices of production factors in each country participating in international trade. The essence of Heckscher-theorem Ohlin's is that a country will export products that absorb more and cheaper factors of production within the country, while importing products whose production factors are expensive or scarce (Salvatore, 2016:109).

IJEPA has no major (significant) impact on Indonesia's export pattern to Japan, according to Salam, Rayadiani, and Lingga (2012). On the other hand, there has been a shift in the pattern of various commodities imported from Japan. Furthermore, according to (Firdaus 2014), Indonesia's exports did not grow after the implementation of the IJEPA, and the country's trade balance was in deficit at the time of implementation. According to research conducted by (Ardiyanti 2015), the IJEPA agreement has a considerable impact on the value of Indonesia's non-oil and gas exports to Japan, but has no impact on

Indonesian imports from Japan. With the adoption of the IJEPA, Indonesia now has a competitive edge in trading with Japan (Ardiyanti 2015).

According to research undertaken by (Gocklas C.S and Sulasmiyati 2017), the value of exports and imports increased after the adoption of the IJEPA, based on statistical testing. Meanwhile, the T-test revealed that Indonesia and Japan's average exports and imports increased significantly following the introduction of the IJEPA. This is due to the two countries' greater open market potential following the IJEPA agreement.

Following that, empirical research was carried out by (Shelaby, Mohamed, and Salah 2018) As a result, the GDP of the two countries influences the growth of Egypt's exports to Nile Valley countries. Egypt has a huge opportunity to improve its GDP and thus enhance its exports to Nile Valley countries. Meanwhile, distance has a detrimental impact due to the Nile Valley countries' weak transportation. The second empirical analysis, undertaken by Dipika (Bhadu and Pant 2011), discovered that India's exports to China contributed only 14 percent to the country's GDP growth, while imports from China contributed only 11.5 percent.

METHOD

This study is quantitative and uses secondary time series data from 2005Q1 to 2019Q4 (before and after the adoption of the IJEPA). The IJEPA dummy variables, exports, foreign direct investment (FDI), exchange rates, and inflation from the Trade Map and United Nations Commodity Trade Statistics (UN COMTRADE), Central Statistics Agency (BPS), Ministry of the Trade Republic of Indonesia, and the International Monetary Fund were used in this study (IMF).

The research hypothesis is as follows:

H1 : The IJEPA Agreement has a significant effect on the growth of Indonesia's export value.

H2 : The exchange rate has a significant effect on the growth of Indonesia's export value

H3 : Inflation has a significant effect on the growth of Indonesia's export value.

H4 : Direct investment from Japan has a significant effect on Indonesia's export growth score

The Vector Error Correction Model (VECM) was employed as the study approach. All economic factors are assumed to be linked in this model. Engle & Granger (1987) devised a model that included non-stationary and cointegration by combining the concepts of cointegration and error correction. The long-term and short-term components of the data production process are easily separated with VECM. VECM can be used to model non-stationary and cointegrated time series data (Sinay 2014). This research model is based on prior work by Alhayat & Muslim (2016), Ha et al. (2016), and Maswana (2020). The research model is as follows, based on the referenced study:

val_exp = f (IJEPA, ER, INF, FDI) …………………………………….…(1)

It is reduced to the following in the econometric model:

$$\text{Val\_Exp}_t = \beta_0 + \beta_1 \text{ IJEPA}_{t-1} + \beta_2 \text{ER}_{t-1} + \beta_3 \text{INF}_{t-1} + \beta_4 \text{ FDI}_{t-1} + \varepsilon_t \dots \dots (2)$$

Description: Val_exp: Export Value (US$); β_0: Constant; $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$: Parameters; IJEPA: Indonesia-Japan Economic Partnership Agreement (Dummy); ER: Exchange Rate (US$); INF: Inflation (%); FDI: Foreign Direct Investment (US$); ε: Error term; t: Time.

FINDING AND DISCUSSION

Stationarity test, optimum lag test, cointegration test, VECM estimate, Impulse Response Function (IRF) analysis, and Variance Decomposition (VDC) analysis are among the VECM analysis methods used in this work. Test for Stationarity the data were tested for stationarity using the VECM approach, which involved evaluating the unit roots of each variable to determine its stationarity. A cointegrated stationary variable is formed when a non-stationary variable is joined with another non-stationary variable. The variable utilized

Table 1. *Results of the Stationarity Test*

Variable	Probability			Description
	Level	*First Difference*	*Second Difference*	
Ekspor	0,1105	0,0000	0,0000	Stationary at the level of first difference and second difference
IJEPA	0,3633	0,0000	0,0000	Stationary at the level of first difference and second difference
Exchange Rate	0,8563	0,0000	0,0000	Stationary at the level of first difference and second difference
Inflasi	0,0000	0,0000	0,0000	Stationary at the levels..
FDI	0,0036	0,0000	0,0000	Stationary at the level of first difference and second difference

is stationary if the probability value is less than 5% (0.05), and it is not stationary if the probability value is larger than 5% (>0.05).

The Johansen method is used for the cointegration test, which has three levels: 1%, 5%, and 10%. Comparing the crucial value with the trace statistic is one approach to determine whether data is cointegrated between variables. There is no cointegration between variables if the critical value is bigger than the statistical value. The presence of cointegration suggests that the five independent variables, namely exports, IJEPA, exchange rate, FDI, and inflation, have a long-term link to the increase in Indonesia's export value.

The goal of the best lag test is to figure out how long a variable has been impacting other variables. In this work, the AIC is used for optimal lag testing (Akaike information criterion). The smallest lag variable, according to the optimum lag test, is 1 lag with a value of 63,22374.

Changes in the IJEPA variable have a substantial negative influence on the variable increase in Indonesia's export value of -1919231.0, according to the VECM model's estimation result. Furthermore, during the period 2005Q1-2019Q4, changes in the inflation variable had a positive and significant impact on the growth in the value of Indonesia's exports by 205577.2. Changes in FDI and the currency rate, on the other hand, have no discernible impact on export growth.

The IRF method is used to describe the impact of shocks on one variable on other

Table 4. *Results of the VECM Estimation Model*

Variable	Coefficient	Probability	Description	Hypothesis
IJEPA (-1)	-1919231,	0,0118	Significant	H1 accepted
IJEPA (-2)	-1486217	0,0809	Significant	H1 accepted
Exchange rate (-1)	-139,7065	0,5360	Not significant	H2 rejected
Exchange rate (-2)	68,88364	0,7550	Not significant	H2 rejected
Inflasi (-1)	205577,2	0,0037	Significant	H3 accepted
Inflasi (-2)	136926,7	0,0118	Significant	H3 accepted
FDI (-1)	-82,19835	0,6692	Not significant	H4 rejected
FDI (-2)	-188,2242	0,3901	Not significant	H4 rejected

variables in a model. The IRF test results show that the shocks caused by the IJEPA variable from the beginning of the period to the fourth period are negative. This occurred because when the IJEPA was implemented, Indonesian exports to Japan increased significantly, but then fell precipitously due to the global economic crisis that hit Japan. occurred at the end of 2008, creating a drop in Indonesian exports. Because Indonesian exports to Japan gradually increased after the global financial crisis in 2008, the shocks provided by the IJEPA variable decreased from period 5 to period 7, even though they were still negative, and then the shocks provided were stable until the 30th period. This was because the value of Indonesian exports to Japan was stable from period 7 onwards.

Table 2. *Johansen Cointegration Test Results 5%*

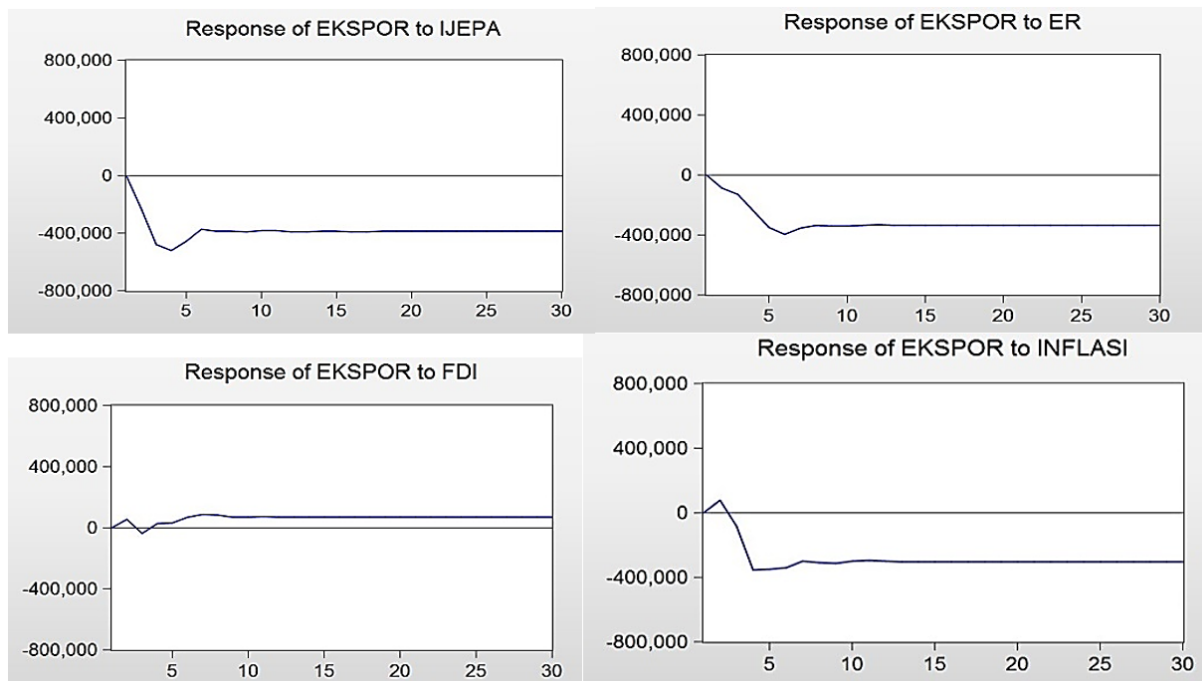| Trace Statistic	Critical Value	Description
80,27421	69,81889	Cointegrated

Figure 3. Results of the IRF test

The variable exchange rate gave a negative shock from the beginning of the period to the tenth period, and from the tenth period to the thirty-first period, the shocks given fell slightly but remained negative. The results are based on the fluctuating exchange rate that corresponds to the export value. When the value of exports rises, the Indonesian exchange rate rises, and vice versa, when exports fall, the Indonesian exchange rate falls.

The FDI variable shocks to exports were generally positive, although there were some negative shocks in the third period, even if they were not far from the point of stability, and the shocks were steady and positive in the next period up to the 30th period. The inflation variable produces positive shocks from the beginning to the second period, but negative shocks from the third to fourth periods, which are far from the point of stability. Although there was a modest decrease in shocks from the fifth to the seventh periods, the shocks provided from the eighth to the thirty-first periods remained consistent and negative.

The size of the shocks produced by the endogenous variables in the VECM model was determined using Test Decomposition. The proportion of shocks given by the exchange rate, FDI, IJEPA, and inflation variables increases in each period, but the proportion of shocks given is relatively modest, as shown by the test variance decomposition in Table 5. The exchange rate variable received 7.88 percent of the shocks, 0.2 percent of the FDI variable, 29.15 percent of the IJEPA variable, and 10.02 percent of the inflation variable on Indonesian exports in the fifth period.

Table 5. *Variance Decomposition*

Period	S.E	ER	FDI	IJEPA	Inflation
1	690525.2	0,000000	0,000000	0,000000	0,000000
2	910259,7	0,945714	0,345586	6,387381	0,718073
3	1151781,	1,893357	0,324895	21,48419	1,002630
4	1411342,	4,218775	0,247390	27,94585	7,014824
5	1622987,	7,880417	0,217145	29,15199	10,02729

Based on the results of the data analysis shows that IJEPA and inflation variables have a significant influence on the value of Indonesia's exports. The results of this study are supported by previous empirical studies by Ardiyanti (2015) dan Setiawan (2012)which state that IJEPA can significantly increase the value of exports. Thus the results of this study are following the objectives of the IJEPA implementation. This trade agreement between Indonesia and Japan was implemented to increase trade between Indonesia and Japan as well as regional markets by implementing three main pillars, namely trade liberalization, trade facilitation, and capacity building. In this trade liberalization, IJEPA will remove or reduce barriers to trade, including the reduction or elimination of import duties. In the IJEPA framework, 80% of Japan's preferential tariff posts are already duty-free, including wood products, processed fish, and footwear.

The second pillar is trade facilitation, where IJEPA will facilitate the two countries, namely Indonesia and Japan, in conducting cooperation such as product standardization, customs, ports, and trade services. In addition to facilitating trade, IJEPA will also regulate the improvement of the investment climate where IJEPA will convince Japanese investors to increase their confidence in Japanese investors to investing in Indonesia. The third pillar is *capacity building*, in which IJEPA will provide space for Indonesia and Japan to collaborate to increase product competitiveness for Indonesian and Japanese producers. In terms of capacity building, Indonesia has carried out several ways including skills development training for the workforce, promoting SMEs in Indonesia, and developing the capabilities of Indonesian producers or suppliers.

IJEPA provides a number of advantages. For example, between 2009 and 2017, commerce in goods between Indonesia and Japan expanded by 155 percent, with exports increasing by 101.7 percent and imports increasing by 322.1 percent (Kementerian Perdagangan 2018). The trend in Japanese investment has similarly risen, from 2.6 percent in 2000-2008 to 28.9 percent in 2009-2017. In addition to increased commerce and investment, Indonesia sent 622 nurses and 1,494 elderly nurses to the labor delivery sector between 2008 and 2017. When comparing Indonesia and Japan, however, Japan employs the preferential tariff structure more frequently than Indonesia. The use of Indonesian imports from Japan was found to be 60-76 percent higher than the utilization of Indonesian exports to Japan, which was 47-51 percent (Kementerian Perdagangan 2018).

The advantages of IJEPA for business players or exporters, according to the Ministry of Trade (2018), are that it can decrease trade obstacles and enhance Japanese imports from Indonesia, both in goods and services. Business actors can receive Japanese items at a lower tariff thanks to the IJEPA (preference). Furthermore, IJEPA boosts the value of Japanese investment in Indonesia, particularly in the manufacturing sector. In addition, the IJEPA opens up new job opportunities, such as nursing staff and senior nurses. IJEPA will consider the addition of new jobs in the tourism sector in the upcoming general review.

CONCLUSION

Based on the results of the VECM test, the IJEPA variable has a significant effect on the value of Indonesian exports, thus H1 is accepted. It is shown that during the study period, the value of Indonesia's exports always experienced a surplus against Japan, but the value continued to decline from the beginning of the implementation of the IJEPA. The variable exchange rate in the VECM test has no significant effect on the export value, which means that the value of Indonesia's exports will not be affected by the fluctuations in the exchange rate, thus H2 is rejected. The inflation variable in the long-term VECM test is significant to the value of Indonesia's exports, thus H3 is accepted. The FDI variable in the VECM test does not affect the value of Indonesia's exports, it means that the export value will not be affected by the fluctuations in the value of FDI, thus H4 is rejected.

In connection with the results of the analysis and discussion, Indonesian products that have the opportunity to be exported to Japan should be increased again, because of the IJEPA tariff scheme, and import duties to Japan will be lower. The increase in exports is also to take advantage of trade liberalization related to the trade tariff scheme of Indonesia and Japan. Relevant agencies should also make more use of capacity building provided by IJEPA. IJEPA provides space for the two countries to cooperate to increase the competitiveness of Indonesian producers. In this capacity building, more emphasis should be placed on the standardization of Japanese imported products. Due to the high standard of Japanese imported products, the Government or relevant agencies are expected to check and direct the standards of Japanese imported products so that Indonesian industries and SMEs can grow and develop.

Based on the results of data analysis and discussion, this research is sufficient to answer the problems related to the implications of the IJEPA on the value of Indonesian trade. However, there are still limitations of this research, namely the research is still focused on the effect of the implementation of the IJEPA on the export value in general by considering 3 macro variables. Thus, it is necessary to develop research, especially on the novelty of analytical methods and variations of research variables.

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