ERIA-DP-2020-11

ERIA Discussion Paper Series
No. 338

The Economic Impact of Globalisation in Indonesia*

Kiki VERICO†

Assistant Professor at the Faculty of Economics and Business, University of Indonesia (FEB UI) and Associate Director for Research at the Institute for Economic and Social Research (LPEM FEB UI).

Mari Elka PANGESTU

Professor of International Economics at the FEB UI; Minister of Trade, Indonesia (2004–2011); and Minister of Tourism and Creative Economy, Indonesia (2011–2014).

August 2020

Abstract: *This paper analyses the economic impact of globalisation in Indonesia from the end of the 1960s to date. The analysis found that globalisation generated a positive impact on Indonesia's economic growth through the trade and investment channel; reduced wage inequality and child labour participation; and increased labour absorption, including women's participation in the labour market. Through the trade channel, globalisation also contributed to Indonesia's productivity and structural economic transformation, benefited small and medium-sized enterprises (SMEs), contributed to poverty alleviation and reduced inequality, and increased trade in services such as tourism. Through the investment channel, there is evidence of the spillover effect of technology transfer, technology progress, improvement of the role of SMEs, and contribution to poverty alleviation. The waves of open and more restrictive trade and investment policies, which Indonesia has gone through in the last few decades, reflect the political economy reality – that is, the impact of globalisation is dynamic and only felt in the medium term, whereas the cost and potential negative impact is often felt more immediately throughout trade creation. The trade creation increases imports from countries with which free trade agreements have been negotiated, thus decreasing the domestic producer surplus. Since globalisation will create net benefits in the long run, Indonesia should continue its process of globalisation and integration with the world economy to ensure the net benefits and to move forward in its structural transformation, while managing the costs of globalisation and its transition process.*

Keywords: Indonesia, Globalization, Economic Development, International Economic Policy

JEL Classification: F60; F63; F13

* This paper was prepared for a research project co-organized by Economic Research Institute for ASEAN and East Asia (ERIA), APEC Division, Economic Affairs Bureau, Ministry of Foreign Affairs of Japan, and Japan Institute of International Affairs (JIIA).

† We would like to express our sincere gratitude to Professor Shujiro Urata for his strong supervision and invaluable review of this article from start to finish; Syarifah Liza Munira for her critical review of the early draft of this paper; and Yeremia Natanael, Natanael Waraney Gerald Massie, and Devianto Suratno for their assistance in providing some of the references.

1. Background

Trade and foreign direct investment (FDI) are essential instruments for economic growth. Theoretically, the combination of the Solow growth model, Cobb-Douglas production function, and Harrod-Domar model show that trade and investment are the primary sources of economic growth. Trade allows all countries to consume cheaper goods and services from other countries based on their comparative advantage. FDI promotes technological transfer as well as human capital and institutional improvement from developed to developing countries. Developing countries typically face a savings–investment gap, whereas FDI inflows allow them to receive technological transfer from developed countries. This transfer stimulates both human capital and institutional improvement in developing countries.[1]

As trade and investment are the major sources of economic growth, Indonesia must remain on track by continuing the process of globalisation and openness. The openness experienced by Indonesia, particularly in the 1990s, has benefited its development in the last few decades. Globalisation and an open economy create economic benefits in the form of economic growth and welfare. However, economic globalisation entails costs, as trade increases competition for domestic producers and workers. Globalisation creates trade with other countries, but implies loss for non-competitive domestic producers because their products have to compete with imported products.

Trade liberalisation at bilateral, regional, and multilateral fora increases trade creation with the countries involved in the agreements (Viner, 1950; Verico, 2017; Mattoo, Mulabdic, and Ruta, 2019). Trade creation allows Indonesia to export its products to other countries, but increases import products from other countries. Increasing imports is immediate and classified as the cost of liberalisation. Increasing exports requires supply-side improvement, which takes longer than increasing imports from the demand side.

Stiglitz (2007) showed that globalisation creates costs in the short run and benefits in the medium to long run. Nevertheless, the short-run cost is always less than the long-run benefit, and several empirical studies have supported this statement.[2]

---

[1] According to the neo-classical model of economic growth, FDI only affects economic growth if it positively affects technology permanently (de Mello, 1997).

[2] For instance, the cost of 50% tariff elimination in the United States (US) was around 4% of the resulting total gains (Baldwin, Mutti, and Richardson, 1980). Workers bore 90% of this cost while employers bore the remaining 10%. Trade liberalisation in textiles, steel, and the automotive industry led to an estimated economic cost of around 1.5% of its total gain (de Melo and Tarr, 1992). The removal of subsidies and tariffs in the British footwear industry led to a low estimated cost of 0.5%–1.5% of total liberalisation gains (Takacs and Winters, 1991).

Economic theory and empirical results have shown that globalisation yields positive net benefits, but policymakers have to mitigate the short-run costs. The biggest challenge for Indonesia in continuing its globalisation process is finding the balance between the long-run net benefits of globalisation and managing the adverse effects in the short run. In a democratic Indonesia, this has political implications. Thus, like many other countries, Indonesia has to balance the political economy of the long-term benefits of globalisation and the short-term negative impact of the continued globalisation.

This paper has two primary objectives: firstly, to understand the globalisation trends in Indonesia – both in trade and investment liberalisation – over the last four decades, from the period before the reform era until now. Section three discusses the factors behind Indonesia's process of globalisation. An understanding of these underlying factors is essential to see how Indonesia needs to deal with globalisation factors in the short term to bring it to the next stage of development and structural transformation. Section four provides an overview of Indonesia's recent trade policy and globalisation, followed by a description of the underlying phenomenon in the different periods of globalisation. It also details the government's trade and investment policies, including forms of protection.

The second objective is to understand the impact of globalisation on Indonesia's economy in order to provide the longer-term case for economic globalisation. Section five focuses on the impacts of trade liberalisation on growth, productivity, labour, poverty, inequality, small and medium-sized enterprises (SMEs), and tourism. Section six focuses on the impact of investment liberalisation on economic growth, technological transfer, and progress. The last section provides conclusions and policy recommendations.

2. Trends of Globalisation in Indonesia

2.1. Trade Liberalisation in Indonesia

The legal basis of the international trade and investment regime was established through international commitments and domestic laws and regulations. Indonesia was a member of the General Agreement on Tariffs and Trade (GATT) from 24 February 1950, and participated in the Uruguay Round of multilateral trade negotiations, which saw the creation of the World Trade Organization (WTO) in 1995. It also ratified WTO commitments in its national legislation in 1994, including laws related to the use of trade remedies and the setting up of the necessary institutions.

In addition to the WTO, Indonesia was a founding member of the Asia-Pacific Economic Cooperation (APEC), and the host of the 1994 APEC meeting which created the Bogor Goals for free trade and investment flows in the Asia-Pacific region no later than 2010 for developed economies and 2020 for developing economies. Indonesia announced a number of critical reforms, especially removing restrictions on foreign investment, such as allowing 100% foreign ownership and linking it to export orientation. The APEC principles support the elimination of trade restrictions, voluntary liberalisation, and non-exclusive regionalism; and have provided benefits for member economies (Seng et al., 2002). The Bogor Goals were the forerunner of the proposed Free Trade Area of the Asia Pacific.

Indonesia experienced several periods of liberalisation as part of its globalisation process to integrate with the world economy. The beginning of the New Order[3] brought a series of reforms such as FDI liberalisation, the removal of foreign exchange restrictions, and tariff rationalisation. In subsequent years and during the oil boom years, the import substitution industrialisation strategy resulted in high tariffs, quantitative restrictions, and high effective rates of protection (ERP). However, the decline in oil prices in the mid-1980s and the need to reduce dependence on oil affected some bold deregulatory policies in Indonesia. Notably, the 6 May Policy Package issued in 1986 abolished many tariff levels; and corrupt customs were replaced by SGS, a Swiss surveyor company. In 2007, the foreign and domestic investment law was merged and managed by the Indonesian Investment Coordinating Board (BKPM) and showed much improvement.

Empirically, based on the World Bank's World Development Indicators, Indonesia's tariff rates (applied and most favoured nation) declined from an average of 15% in the 1990s to an average of 2% of applied and 6% of most favoured nation weighted tariffs in 2018 (World Bank, 2019).

In 1992, Indonesia agreed to the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA), which set intra-ASEAN tariff rates at zero. The AFTA involved two stages of implementation: the Common Effective Preferential Tariff for the ASEAN Six (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) in 2010; and its extension to the remaining ASEAN Four (Cambodia, the Lao People's Democratic

[3] After the collapse of the economy and under the New Order era of President Suharto, the technocrats in government recognised the need to attract foreign investment to lift Indonesia out of its economic crisis and introduced Indonesia's first foreign investment law No. 1/1967, which adopted an 'open door policy', as well as a parallel Domestic Investment Law in 1968.

Republic, Myanmar, and Viet Nam) in 2015.[4] Since then, Indonesia has applied a 0% tariff for all ASEAN members (Common Effective Preferential Tariff).

In 1995, Indonesia committed to implementing tariff deregulation, which was followed by a series of reforms due to commitments under the WTO. Indonesia complied with its WTO commitments in terms of import tariffs not exceeding its bound tariffs. It also fulfilled several other commitments, such as eliminating local content regulations. Studies have shown that global economic liberalisation in trade and investment contributed to a positive and significant effect on the economic growth of the member states of the WTO (Ying, Chang, and Lee, 2014).

In terms of regional cooperation, Indonesia is one of ASEAN's founding members. It is very active in the deepening and widening of ASEAN economic integration, starting with AFTA in 1992 and the broader and deeper ASEAN Economic Community in 2003. Indonesia was also active in the formation of the ASEAN Economic Community Blueprint in 2006 and the development of free trade agreements (FTAs) between ASEAN and China; the Republic of Korea (henceforth, Korea); Japan; Australia and New Zealand; and India. ASEAN is like 'battleground training' for Indonesia before facing global trade competition.

Indonesia only has two major bilateral agreements: (i) the Indonesia–Japan Economic Partnership Agreement, completed and signed in 2006; and (ii) the Indonesia–Pakistan Preferential Trade Agreement, signed and in effect since September 2013. Several bilateral trade negotiations with major partners such as the European Union, Korea, Australia, and Chile, were started around 2008–2009 but stopped due to the global financial crisis and the retreat from the openness that occurred from 2012.

Besides tariff reductions, non-tariff measures (NTMs) were deregulated, and the number of items covered by such barriers fell by 15 percentage points from 31% to around 16% (Wymenga, 1991). Indonesia's liberalisation of trade and investment policies was basically shaped by various rounds of international agreements of which Indonesia was a participant or chair, leading to a further series of unilateral liberalisations in Indonesia.[5]

[4] In 2016, ASEAN began the implementation of the ASEAN Economic Community, the longest period of the liberalisation process from trade to investment. Based on the model of the European Union's regional economic integration, the process of integration began with the Free Trade Area (1957–1967), followed by the Customs Union or Economic Community (1967–1987), the Common Market (1987–1993), the Single Monetary Union (1993–1999), and the Single Currency (1999–2002). The longest period was the Customs Union (20 years).

[5] Liberalisation in Indonesia often required dealing with 'patron–client relationships' amongst members of former President Suharto's inner circle, who owned certain monopolies and private establishments backed by formal regulations (Pangestu, Rahardja, and Ing, 2015).

The most obvious example was Indonesia's 'Timor' national car, where a joint venture with Kia and President Suharto's son was given the privilege of duty-free imports of 'completely knocked down' vehicles. This was in contrast to the conditions for existing automotive companies, which could only import 'knocked down' cars and assemble them in Indonesia with relatively high tariffs. Japan, supported by the United States (US) and the European Union, brought this case to the WTO's dispute settlement mechanism. It was one of the first cases to be brought to the mechanism and the first for Indonesia. Indonesia lost the case because the policy violated the most fundamental principle in the GATT/WTO – non-discrimination.

Another phenomenon that affects the liberalisation and reform of countries such as Indonesia is 'competitive liberalisation', where countries open up trade and investment as their competitor countries liberalise their markets (the Nash equilibrium or reciprocal action). In general, this took place during the 1990s in East Asia, as countries undertook liberalisation and reforms to attract FDI and diversify their sources of growth.[6] Concerted unilateral liberalisation was also part of the spirit of APEC, undertaken under agreed non-binding principles and examples of other countries, as showcased by the regular announcements of individual action plans.

Another impact of competitive liberalisation is competitive trade pacts, leading to a snowball effect. The Trans-Pacific Partnership (TPP) was launched in 2006 with the original four small countries (Brunei Darussalam, Chile, New Zealand, and Singapore). In the beginning, it was named the Trans-Pacific Strategic Economic Partnership Agreement (TPSEP). In 2008, Australia, Peru, and Viet Nam joined as non-members and associate members of the TPSEP. The TPSEP got a boost in 2010 when the US, along with Malaysia, joined and tried to entice larger countries to join, and the name was changed to the TPP. The TPP gained much ground when Canada and Mexico joined in 2012, and most importantly, Japan joined in 2013, and with US leadership, the negotiations were completed in 2015 and signed by all 12 members in early 2016. Viet Nam is a member of the TPP and has been on the record as using the TPP to shape its domestic reforms. Under pressure from its exporters, which would be at a competitive disadvantage in the US market and could face trade diversion, Indonesia announced its intention to join the TPP in 2015. Since the US withdrew from the

[6] Economic growth is $\frac{\Delta Y_{it}}{Y_{it}} = \frac{\left(I_{it} - (\delta_{it} + n_{it} + {}^{\Delta E_{it}}/_{E_{it}})\right) + (X_{it} - M_{it})}{C}$; where Y is output; I is investment; n is population; E is productivity of labour; X is export; M is import; and C is incremental capital output ratio: additional unit of capital needed to increase an additional unit of economic growth.

TPP in January 2017, the TPP changed to 11 members and is known as the TPP11 or the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Meanwhile, with Indonesia as chair, ASEAN launched the Regional Comprehensive Economic Partnership (RCEP) in 2011 to consolidate the ASEAN Plus One FTAs with China, Japan, Korea, Australia and New Zealand, and India. The RCEP is much more significant in terms of population but similar in size to the TPP in terms of gross domestic product (GDP) and trade. Negotiations started in 2012 and are ongoing, although the completion of the TPP and the CPTPP, as well as global uncertainties, heightened the importance of completing negotiations in 2019. Six of the 11 countries (Australia, Canada, Japan, Mexico, New Zealand, and Singapore) ratified the agreement on 30 December 2018, followed by Viet Nam in January 2019, and the CPTPP agreements came into force in these countries. The RCEP agreement is to be signed in 2020, according to the commitment made at the ASEAN Summit on 2 November 2019, but will not include India, which decided not to move forward.

Warr (1992) argued that Indonesia's competitiveness remains stagnant because the reduction in tariff and import restrictions had only liberalised Indonesia's economy, without serious efforts to improve the competitiveness of its domestic supply. Permani (2011) supported this finding that Indonesia took more in terms of tariff protection (demand side) and showed little effort to boost economic growth from the improvement of its supply side.

2.2. Investment Liberalisation in Indonesia

Since 1986, Indonesia had waived some of the restrictions on foreign investment. Right after independence and under the 'old order' period of Sukarno, there was massive nationalisation and a very restrictive and nationalistic approach to foreign investment, e.g. Law No. 78/1958 on Foreign Direct Investment. Following the collapse of the economy and under the New Order era of President Suharto, the technocrats in government recognised the need to attract foreign investment to lift Indonesia out of its economic crisis. Thus, they introduced Indonesia's first foreign investment law (Law No. 1/1967), which adopted an open-door policy, as well as a parallel domestic investment law (Law No. 6/1968). Indonesia's investment liberalisation was one of the major reforms under the New Order Government and was intended to attract FDI after the economic crisis under the old order period. Law No. 1/1967 allowed for the first FDI joint ventures, which was followed by waves of foreign investment restrictions during the oil boom years and relaxation during bad times and economic crisis.

The Coordinating Investment Board was also created in 1973 to facilitate investment and become a one-stop shop – a centralised, top–down government approach where the authority to issue related licensing and regulations was given to the officials at the Investment Board. These laws and policies led to a vast increase in FDI in mining, oil and gas, and manufacturing, as well as domestic investments. There was a wave of Japanese investments in the manufacturing sector, notably the electronics and automotive segments.

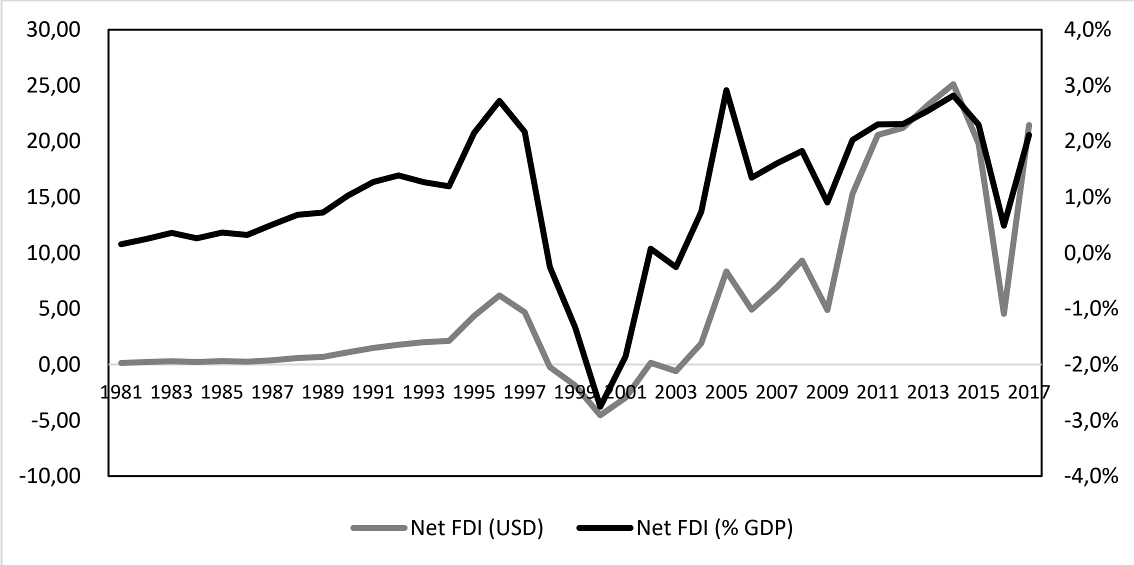
After some resistance to foreign investment, an amendment and supplement to Law No. 1/1967 on Foreign Direct Investment (Law No. 11/1970) was passed, marking the introduction of restrictions on foreign ownership and divestment. With the objective of increasing investment in the aftermath of the Asian financial crisis, Indonesia reformed its investment regulation in 2007 and the domestic and foreign investment laws were merged under Law No. 25/2007 on Investment of both Foreign and Domestic Direct Investment. The intention was to create greater certainty and introduce the best practices of investment laws such as national treatment, non-discrimination, transparency, a negative list approach, removal of the divestment requirements, and streamlining of investment processes, with an integrated investment system similar to the notion of the one-stop service of the past. The passage of the law and subsequent institutional and regulatory improvements succeeded in increasing FDI inflows to Indonesia around threefold from an annual average of $5.5 billion (2004–2007) to $15.7 billion (2007–2017).

As a result, FDI inflows to Indonesia have turned from negative and slow growth during 1999–2004 (Asian financial crisis period)[7] to positive and increasing growth from 2005 onwards (Figure 1). This significant progress began with the implementation of the new investment law in 2007 and a clear signal from the government on its intention to improve the investment climate. From 2015, however, the proportion of FDI to Indonesia's GDP has been declining, suggesting that Indonesia needs further reform to attract more FDI inflows from abroad.

[7] King (2000), Robertson-Snape (1999), and Rock (2003) showed how the Indonesian economy can be sustained amid reform and economic-related liberalisation policy despite massive, systemic rent-seeking activities and corruption. Pincus and Ramli (1998) pointed out that the roots of the lack of preparation for the 1998 crisis were attributed to the series of policy errors in the name of economic liberalisation in the previous period.

Figure 1: FDI Inflows to Indonesia and Net Value, 1981–2017

($ billion and % of GDP)



FDI = foreign direct investment, GDP = gross domestic product.
Source: World Bank (2019).

Otsuka, Thomsen, and Goldstein (2011) found that Indonesia had significantly liberalised its investment regulation in 2007 by applying one-stop integrated services (PTSP) to reduce red tape, granting fiscal incentives for investment regardless of a firm's ownership, and establishing transparent procedures for investment. These actions increased FDI inflows to Indonesia, in particular in 2008 and 2010. Nevertheless, the investment climate has been affected by various other issues such as the proliferation of NTMs, rigid labour laws and lack of clarity regarding the minimum wage, and legal uncertainties. A survey of Japanese foreign investment by JETRO (2019) showed that Indonesia has become the most challenging country in terms of NTMs, in particular on import restriction, standards and conformity assessment systems, and local content requirement regulations.

Regarding movement of people, Indonesia sends more people to work overseas than the number of foreign workers it receives from abroad. Data from Bank Indonesia show that 3.51 million Indonesians were working abroad in 2016, increasing to 3.65 million people in 2018. This resulted in remittances of $10 billion in 2016 (10% of the foreign exchange reserve) and $12 billion in 2018 (11% of the foreign exchange reserve).[8] The total value of remittances from foreign workers is $12 billion (2019), highlighting the importance of the contribution of worker remittances to foreign exchange reserves. In comparison, the number of foreign

[8] See Bank Indonesia (2019).

workers in Indonesia decreased from 97,000 in 2016 to 94,000 in 2018. In terms of skills, most of Indonesia's migrant workers are low-skilled domestic workers, while the foreign workers in Indonesia working in foreign companies come from the home country of the FDI. Expatriates in Indonesia are skilled workers who mostly work for foreign companies or international organisations. Indonesia has restrictive policies on foreign workers and talent. A recent estimate showed that foreign immigrants comprise only 0.1% of Indonesia's population – the lowest in the region – compared with 6% in Malaysia, 8% in Thailand, and 45% in Singapore (United Nations Department of Economic and Social Affairs, Population Division, 2015).

3. Factors Behind Indonesia's Options in Globalising Its Economy

In the context of Indonesia's unilateral economic liberalisation, many political economic analyses point to Sadli's Law: 'bad economic conditions drive good policy and good economic conditions drive bad (*inward looking*) policy'.[9] The different episodes of economic openness are depicted in Figure 2. Historically, bad economic conditions during the old order regime and the transition to the new order regime in 1966 led to massive regulatory reform and unilateral economic liberalisation, with a significant positive impact.

During the oil boom years or the Dutch disease period in the 1970s and 1980s, Indonesia had a trade surplus and the real gross national product growth rates were considerably high, at 7.5% in 1978 and 8.6% in 1980 (Juoro, 1993). During this period, Indonesia continued to pursue an import substitution policy to support industrialisation by increasing the tariff rate of final goods more than that of inputs – leading to high levels of effective protection – whereas consumers and producers had to pay a higher price due to the increasing rate of protection.[10] An increased role was given to state-owned enterprises and certain well-connected private sector enterprises linked to the inner circle of the New Order,[11] which received special business privileges, access to financing, and monopoly over the import

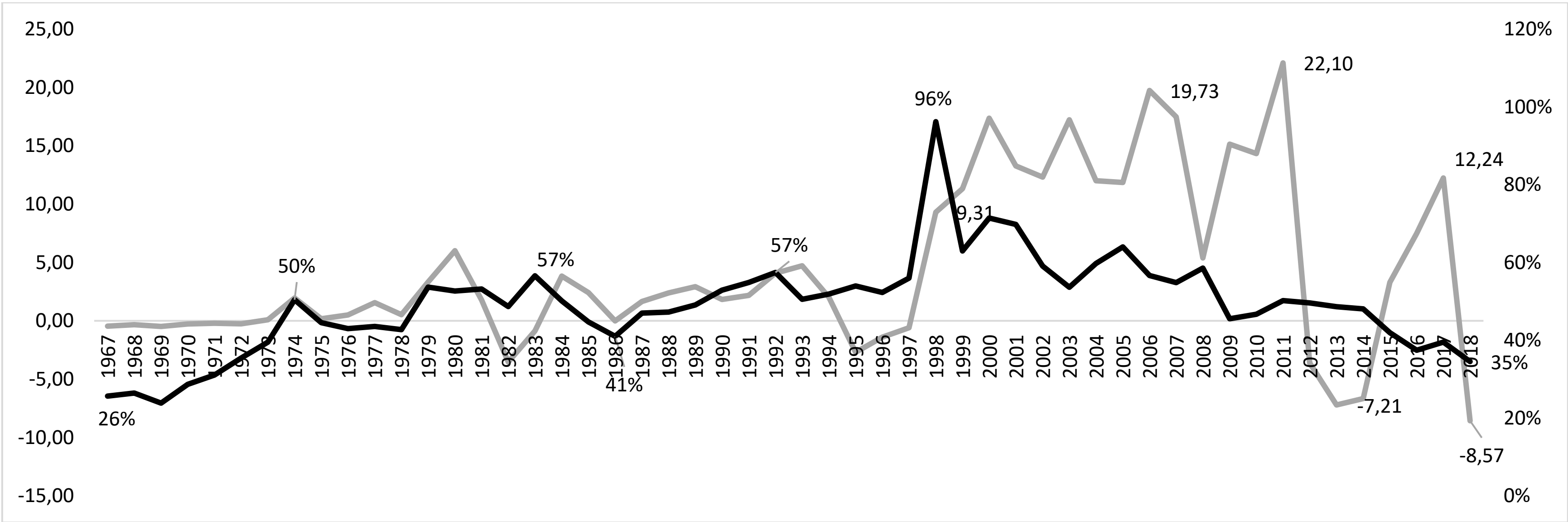
[9] 'Sadli's Law' refers to the late Mohammad Sadli, Indonesian economist and Minister of Mining (1973–1978), Minister of Manpower (1971–1973), and Director of the University of Indonesia's think tank, LPEM-UI.

[10] In this case, the Dutch disease refers to Indonesia's misallocation of subsidies and protectionism. Indonesia applied an import substitution policy, using tariff protection, instead of building the competitiveness of its supply side. The Dutch disease of the oil boom, moral hazard in subsidies, and misuse of the import substitution policy made economic liberalisation in Indonesia unsuccessful in improving domestic supply competitiveness. This stimulated rent-seeking activity and economic inefficiency in Indonesia.

[11] Another example of such abuse of the trade liberalisation schemes was the exemption of import and luxury taxes for the national car company. This incurred the wrath of international automotive companies, as the holding group enjoyed the advantage of importing completely built-up cars.

of strategic goods. By the mid-1980s, more than 200 enterprises were state-owned, many of which were being used for rent-seeking by cronies (Robertson-Snape, 1999). The policy stance was somewhat mixed because some measures were also undertaken to increase non-oil exports, such as subsidies for exports and the relaxation of foreign investment restrictions for the promotion of exports.

Figure 2: Indonesia's Trade Balance and Trade Openness, 1967–2018
($ billion and (export + import)/GDP (%))



Note: The grey line indicates trade balance while the black line indicates trade openness (TO). TO is the total of the value of exports and the value of imports per GDP: $TO = \frac{(X_{nt}+M_{nt})}{GDP_{nt}}$; TO is trade openness; X is the value of export; M is the value of import; n is country space; t is the time dimension; and GDP is the value of gross domestic product. A good economy indicates a surplus trade balance while the opposite (a bad economy) indicates a deficit trade balance. Inward-looking policy denotes a closed-door policy while outward-looking policy is an open-door policy.

Source: World Bank (2019).

The collapse in oil prices in 1986 led to major reforms and deregulation to diversify away from dependence on the oil sector. The government undertook rationalisation of tariffs; a concerted focus to increase exports by removing obstacles to the movement of goods, such as the closure of the corrupt customs department and a substantial improvement in the restitution mechanism to allow duty- and tax-free access to international inputs; and relaxation of restrictions on export-oriented investments. The result was an increase in export-oriented investments and Indonesia's exports of manufactured goods in labour-intensive products such as garments and footwear, as well as electronics. By the 1990s, Indonesia had reduced its dependence on oil exports from 80% to about 40% of total exports.

The period from 1987 to 1992 was an exception to the Dutch disease phenomenon, when good times still led to outward-oriented policies. The success of the export-oriented industrialisation policy gave Indonesia the confidence to commit to the ASEAN FTA in 1991. It subsequently ratified various WTO commitments into Law No. 7/1994 and relaxed foreign investment restrictions when it was the chair of APEC – providing leadership for free trade and investment. This period is an example of deregulation and reform, even though Indonesia's economy was performing well. It is also an example of reforms that were shaped by international commitments. Despite these reforms, policies were mixed because many preferential policies and import monopolies remained.

It took the Asian financial crisis to remove most of the distortive policies. The crisis forced Indonesia to submit to an International Monetary Fund rescue package, under the fund's supervision. Major reforms were undertaken, such as the scrapping of special preferences for certain state-owned enterprises and business groups, the removal of import concessions, import deregulation, and the removal of various restrictions on foreign investment such as in the retail sector.

Since 2004, reforms have included the passage of the FDI law, simplification of already low tariffs, rationalisation of NTMs, streamlining of regulations, and improvement of customs procedures. The tariff-setting process under the inter-ministerial tariff team was improved, with clear evidence-based policymaking, and a similar attempt was introduced to increase transparency in the setting of NTMs. As part of the commitment to trade facilitation under the ASEAN Single Window, import procedures were simplified and standardised. However, since 2012, we have seen the return of protectionist measures – mainly through the increased use of NTMs, some of which are not consistent with the WTO and which have been taken to the WTO for dispute settlement. The percentage of imports subject to some form of restriction increased from around 20% to 48% (Ministry of Trade, Indonesia, 2018) of tariff lines from 2012 to 2018, even though some of those NTMs are valid for health and safety standards.

4. Indonesia's Recent Trade Policy and Globalisation

To reduce the reliance on imported inputs, as 50% of intermediate input and raw material is imported, Indonesia introduced a local content requirement (LCR) policy in the 1980s. However, the discriminative implementation of tariffs on the final product and intermediate input, and the government response to the LCR – without domestic supply-side support – have not led to an increase in local intermediate input production and have been counterproductive to investment flows. The LCR policy keeps Indonesia in the so-called 'hollow middle',[13] as it is competitive in the production of raw materials and the assembly of manufactured products, but weak in producing intermediate inputs and machinery. The LCR is one type of NTM that Indonesia has implemented, i.e. in the automotive and electronic industries, which had to be eliminated in 1995 upon ratifying the WTO agreements. In recent times, Indonesia has tried to introduce the LCR in several sectors and manners on various occasions, e.g. LCRs for mobile phones in 2012.

As an alternative to implementing the LCR, the government should improve the quality standard of domestic local content and stimulate the local production of intermediate inputs by opening up FDI inflows to the production of intermediate inputs. If domestic producers can create high-quality intermediate input, producers will buy local intermediate inputs. To encourage investment in intermediate products, it is possible to use incentives rather than mandatory requirements. Currently, the shift in policy aims to increase the intermediate product supply from the domestic market, and recognises the need for supply-side supporting policy.

As a result, the ERP for final products has been decreasing (Marks, 2017; Widodo, 2008). The average nominal tariff fell during 1995–2008 in Indonesia, while the average ERP rate increased then decreased (Marks and Rahardja, 2012). The study by Marks and Rahardja also argued that whilst protection using tariffs has fallen, protection policy has shifted to the use of NTMs, which are less transparent, tend to be inconsistent, and are susceptible to rent-

[13] Indonesia has a high comparative advantage in both raw materials and assembly but a low comparative advantage in producing intermediate inputs. The lack of comparative advantage in the middle is known as 'hollow middle' industry.

seeking activities.[14] Some examples can be found in the import of key food products such as rice and sugar, where import licensing procedures have become much more restrictive in the name of price stabilisation. In fact, prices rise – hurting the poor whilst benefiting importers, including the state-owned logistics agency and other state and private sector companies. Another example is the restrictions on imports of horticulture imports entering via certain ports for quarantine reasons, although the intention is to protect local fruits from imported fruits.

5. The Impact of Trade Liberalisation on Indonesia's Economy

5.1. Economic Growth

Indonesia's gains from trade liberalisation, through open trade and investment policies, were reflected in the strong growth performance following deregulation from 1986 to 1997 (James, 2001). Indonesia increased exports in the primary and service sectors due to both backward and forward linkages, led by increased exports of manufactured products. Indonesia experienced increasing job creation in the primary sector because of the increase in primary product exports. The most significant impacts of globalisation were in export volume, terms of trade, export tax, import volume, and domestic income through increased FDI (Sofjan, 2017). The study by Sofjan found that changing the strategy from import substitution to export promotion was the essential factor that created positive impacts from globalisation on Indonesia's economic growth.

Empirically, Indonesia has experienced the benefits of globalisation since 1970, with an increase in GDP per capita of 40% after 5 years and 76% after 10 years (Billmeier and Nannicini, 2013). The study by Billmeier and Nannicini applied the synthetic control method to assess the impact of economic liberalisation on countries' GDP per capita. The time frame is after liberalisation, and they compared countries that liberalised and others that did not liberalise as synthetic control countries. They found that Indonesia's GDP per capita was 40% higher than counterfactual countries only 5 years after its first liberalisation in early 1970 and 76% higher after 10 years in 1980.

[14] During the presidency of Susilo Bambang Yudhoyono, agricultural products became subject to restrictive permits – establishing a quota-based barrier that generated rent-seeking or misuse of the import quota for cows. This involved an Indonesian political party, whose leader was apprehended by the Indonesian Corruption Eradication Commission (KPK) for rent-seeking activity.

Wacker, Grosskurth, and Lakemann (2014) confirmed that trade liberalisation has increased both Indonesia's terms of trade and economic growth. This study showed that the country's terms of trade decreased at the beginning because the cost of trade liberalisation came immediately but increased afterwards when the benefits of trade liberalisation came. Empirically, the increasing trade balance always fosters economic growth.

5.2. Productivity and Labour

The tariff reduction on inputs doubled the productivity level in comparison to the tariff reduction on outputs (Amiti and Konings, 2007). Their study used Indonesia's annual medium–large manufacturing survey and applied tariff rates from 1991 to 2001. They found that having a lower intermediate input tariff rate, compared to that of the final good, doubled firms' productivity against the case without tariff reductions. Amiti and Konings also found that having higher tariff rates for imported final products than for imported intermediate inputs led to an increase in Indonesia's ERP. The ERP policy increases a country's productivity if its local producers are stimulated to compete with the imported products.

Trade liberalisation increases one of the main sources of economic growth – productivity. Hayakawa and Matsuura (2017) calculated the impact of tariff rates on productivity using the simple dynamic simulation method, by comparing the actual and counterfactual scenarios of tariff rates. Their study proved that tariff reduction has improved intra-plant productivity. This reduction generated a significant impact on productivity, as seen in the increased quality of Indonesian products resulting from the reduction in input tariffs. This study adopted price as a proxy for quality – the higher the price of the products (in this case, apparel), the higher their quality. Hayakawa and Matsuura found that a reduction in input tariffs significantly affected product quality, while a reduction in output tariffs did not. A reduction in input tariffs would increase the import of higher-quality inputs. This increasing higher quality of imported products would support Indonesia to produce higher-quality final outputs.

Trade liberalisation also increases labour productivity (Kis-Katos and Sparrow, 2009). Their study investigated the impact of trade liberalisation on child labour in Indonesia by analysing geographical differences due to the trade policy of import tariff reduction at the district level from 1993 to 2002. They found that trade liberalisation generated a positive impact on the declining number of child workers, in particular those aged 10–15 years old. The strongest impact of import tariff reduction occurred on children with a low-skills background, older siblings, and those who work in rural areas. Kis-Katos and Sparrow showed that trade liberalisation opened more job opportunities for skilled workers, so the demand for unskilled child labour declined.

The positive impacts of trade liberalisation on competitiveness are affected by product quality, firm size, capacity, and strength (Narjoko and Urata, 2019). Their study adopted both developed and developing countries, including Indonesia. Rahardja et al. (2015) found that Indonesia's economic liberalisation benefited from the global economy since economic openness to trade improved Indonesia's competitiveness. This study showed that trade competitiveness increased through export promotion, distributor creation programmes, and intermediate input liberalisation, which supported Indonesia to engage with the global value chain and keep its economic growth sustainable.

Beaulieu and Pakrashi (2013) examined an econometric model to test the correlation between child labour force participation and WTO membership. They used panel data analysis for 94 countries with data from 1980 to 1999 and found that WTO membership had a negative correlation with child labour. In addition, the higher the price of rice, the higher the amount of child labour. Less restrictive rice import policies increased rice imports and reduced its price. This decreased the amount of child labour.

Reductions in the tariff rates of imported inputs resulted in increased participation of women in the labour force and a rise in work hours, but no significant effect on working men (Kis-Katos, Pieters, and Sparrow, 2018). The decreasing cost of imported inputs was transformed into increasing job creation for female workers, who had lower wage rates than male workers. Their study found that tariff reductions had a positive impact on the female-intensive sector, while the male-intensive sector dropped because they found that tariff rate reductions in Indonesia are more female-biased than skill-biased. Intensive female-labour participation sectors in Indonesia are textiles, clothing, and footwear (Pangestu and Hendytio, 1997). Kis-Katos, Pieters, and Sparrow (2018) also found that trade liberalisation declined Indonesia's marriage rates for women aged 20–29 and men aged 30–39 because it increases job opportunities for women and decreases subsequent marriages.

Labour market changes are gradual and hinder different groups of workers (Edmonds and Pavnick, 2005). In the short run, employees are less flexible across industries, so tariff cuts benefit jobs in sectors that adopt a flexible labour market. In regions where labour is concentrated in sectors that are losing most of their protection from imports, tariff cuts create regional wage loss and unemployment in the short run (Hasan et al., 2012).

As for the comparison in reducing output and input tariffs, Hayakawa, Matsuura, and Takii (2017) found that reducing output tariffs created a lower impact than that of an input tariff reduction. They confirmed that the application of tariff discrimination between the final product and intermediate input would be beneficial for Indonesia’s trade liberalisation. Such trade liberalisation, through the introduction of FTAs, has contributed to the rise in high-quality imported materials. The significant impact of the quality improvement of imported products creates spillover effects. Local suppliers benefit from the increased quality of products. The study of ERP confirmed that trade liberalisation of inputs is more beneficial than that of finished goods. This policy motivates firms to produce the final product in the domestic market rather than importing from abroad.

5.3. Poverty, Inequality, and SMEs

Kis-Katos and Sparrow (2015) estimated the impact of trade liberalisation on the poverty line in Indonesia. They used regional poverty level data for 1993 and 2002 from 259 districts in Indonesia. They also used labour market data and found a decrease in poverty, particularly in districts with sectors that were more exposed to intermediate input tariff liberalisation. This study found that trade liberalisation of intermediate inputs by lowering import tariffs increases demand for low- and medium-skilled worker participation, and this is a driving factor for poverty alleviation effects.

In the long run, trade openness reduces poverty, income inequality (as measured by the Gini coefficient ratio), and open unemployment[15] in Indonesia (Agusalim, 2017). This study examined secondary data from 1978 to 2015 on import value, GDP, income per capita, open unemployment, and the poverty rate.[16] Agusalim argued that trade openness has a significant impact on poverty reduction in the long run. His impulse response function model showed that the poverty rate decreased in the first 2 years and recorded the most significant negative response in the fifth year. In the predicted error variance decomposition analysis, trade openness starts to have an impact in the seventh year, with the highest impact in the ninth year.

In terms of inequality, using data from developing countries and the Organisation for Economic Co-operation and Development (OECD) countries, Urata and Narjoko (2017) showed that globalisation reduces wage inequality gaps between developed and developing countries. This shows that globalisation enables economic convergence and equality between

[15] Open unemployment is the number of unemployed people divided by the number of people in the labour force.

[16] In terms of dynamic time series tests, this study examined the vector error correction model (VECM). Before examining the VECM, it applied stationarity, optimal lag, stability, and cointegration tests. The VECM applies both short- and long-run modelling analysis, with the impulse response function and forecast error variance decomposition model, accordingly.

and amongst countries. Three essential factors leading to a decline in the wage inequality gap were found: the labour market, capital inflow, and policy reform – suggesting a direction and focus for government policy to improve human capital and establish a well-functioning and flexible labour market. Indonesia is experiencing rapid changes in its international trade and related policies as a consequence of its participation in numerous bilateral, global, and multilateral FTAs (Revindo and Gan, 2017). Free trade increases competition in the domestic market for SMEs through cheap imported goods and the growing presence of international enterprises. On the other hand, it provides an enormous opportunity for SMEs to export and venture abroad.

Sandee, Isdijoso, and Sulandjari (2002) concluded that the macroeconomic environment affected by international trade policy was an essential determinant for the stability of SME operations. They confirmed that, in the long run, the free trade system creates more advantages than burdens for SMEs.

Tambunan (2011) argued that SMEs could not be sustained without globalisation. He discussed the implications of domestic product scarcity on international trade liberalisation and how trade protection on imports of raw materials has generated difficulties for local SMEs. Several times in the 1980s and 1990s, metalworking SMEs in East Java had to close their businesses due to lack of raw materials. The raw materials needed to support Indonesia's metal industry have been imported from China due to the lack of domestic supply (Tambunan, 2007; 2008). Tambunan's studies confirmed that imported input availability due to trade liberalisation was important to support the SMEs' production process.

On the export liberalisation impact, Tambunan (2005) showed that most SMEs did not export directly, but through intermediate agents. He found no strong evidence that trade openness would hurt SMEs in the long run and no evidence that the AFTA of 1992 would be harmful to Indonesia's SMEs. Furthermore, a strong correlation between trade liberalisation and plant size was found by Takii (2014), suggesting that the larger the size of firms, the higher the usage of imported inputs and more orientation for exports. This proves that large companies have driven exports and imports in terms of value instead of small ones. Both Tambunan (2011) and Takii (2014) proved that globalisation is essential for firms of all sizes – small, medium-sized, and large – in Indonesia.

5.4. Trade Impacts on Tourism

Trade creates movement of people, which is indicated by the flows of foreign tourists. Sugiyarto, Blake, and Sinclair (2003) argued that globalisation and trade increase international tourism. They also found that tourism increases trade, as tourism increases demand in the domestic market. The depreciation of the rupiah against the US dollar has made tourism more competitive. Combined with the government's prioritisation of tourism, the improvement in infrastructure (e.g. airports), increased number of countries receiving visa exemptions, and enhanced promotion increase the number of foreign tourists and foreign currencies in Indonesia.

The continued growth of international tourism increases the country's international reserve and decreases its reliance on trade in goods. Sugiyarto, Blake, and Sinclair confirmed that tourism had become a major source of international reserves for Indonesia, whose tourism yield reached about $14 billion in 2018, up from $10 billion per year in the last 5 years. Tourism is Indonesia's only trade in services account with a positive net trade balance. Indonesia relies significantly on international tourism for its trade in services foreign exchange reserve. Data on Indonesia's trade balance show that the source of trade in services is tourism, as Indonesia's transportation, insurance, and banking services are always in deficit. International tourism, which contributes to trade in services, has become an essential factor of globalisation for Indonesia.

6. The Economic Impacts of Foreign Direct Investment

6.1. Investment Liberalisation and Economic Growth

Sinha and Sinha (2002) found a positive relationship between openness in trade-related investment and economic growth in Asia, including Indonesia. They found how trade influences investment and economic growth, and in turn contributes to higher technological advancement and savings. There are three connections between economic growth and globalisation from trade to investment. First, while industrialisation is crucial for economic growth and domestic supply is higher than domestic demand, then exports provide an outlet for the excess production and generate international reserve revenue (Colombatto, 1990). Second, export-led growth shows that exports lead to more technical progress and additional savings, which increases economic growth (Krueger, 1978). Economic growth improves a country's credit ratings, which increases foreign investment inflows. Third, export promotion policies improve total factor productivity (Balassa, 1978). All these trade competitiveness improvements increase investment incentives, including from abroad, i.e. FDI inflows.

Ramstetter and Sjöholm (2015) showed significant differences in revenue, productivity, and trade between multinational corporations (MNCs) and local plants. Evidence also suggested that MNCs do not appear to target high-wage industries or take over plants in Indonesia, but they increase the wage level. Ramstetter and Sjöholm produced substantial evidence that Indonesia had a significantly higher export preference for MNCs, since MNCs have created significant positive impacts and benefits in Indonesia in terms of higher wages, productivity, and exposure to export markets.

FDI has had a greater impact on economic growth than domestic investment (Okamoto and Sjöholm, 2005). In the first half of the 1990s, FDI was a driving force for growth in both employment and production. The presence of foreign firms is also likely to increase profitability in domestic firms through increased competitive stress and technological externalities. Sjöholm (1999) found these productivity spillovers in the Indonesian manufacturing sector. The contribution of foreign plants to the aggregate total factor productivity is relatively high, but the contribution to labour productivity is relatively low due to the high numbers of low-skilled workers. However, the foreign contribution to productivity growth has been substantial in some sectors (e.g. electronics and automotive) because of the availability of high-skilled workers.

Economic models of endogenous growth have been applied to examine the effect of FDI on economic growth through the transfer of technology. Khaliq and Noy (2007) examined the direct effects of FDI inflows on economic growth in different economic sectors using a fixed effects model with sectoral data of FDI inflows, collected from Indonesia’s Investment Coordinating Board (BKPM) for 1997–2006. They found that FDI can promote economic growth through the creation of dynamic comparative advantages that lead to technology transfer. Investment from foreign countries also accelerates economic growth by strengthening human capital, the essential factor in research and development (R&D), while an increase in competition and innovation results in technological progress and increases productivity – thus promoting economic growth in the long run. It can accelerate economic growth either directly or through spillover effects. The effects of FDI on economic growth vary across sectors. From the BKPM data, the secondary sector (including the food and textile industry, paper and printing, machinery, chemical, plastic, rubbers, and metal industry) always had the highest annual and cumulative FDI throughout 1997–2006. On the other hand, the tertiary sector (e.g. electricity, gas and water, trade, hotels, construction, transportation, and communication) received lower FDI inflows than the secondary sector.

6.2. Investment Policy, Spillover Effect of Technological Transfer, and Technological Progress

The Government of Indonesia responded to an economic slowdown in 1994 by announcing radical economic deregulation, including the liberalisation of investment policies (Kuncoro, 2014). The deregulation relaxed foreign ownership restrictions, including allowing 100% foreign ownership investment liberalisation in the manufacturing sector, in particular R&D. Kuncoro (2012) used a model that sets out the concept of a conditional input demand function, which allows labour productivity to have an impact on R&D. The author observed that less successful companies are less likely to engage in R&D operations

At the same time, the government introduced policies and regulations to protect the poor from possible adverse effects of FDI. The policies include the closure of specific sectors, industries, or activities to FDI; and restrictions on modes of entry. These aimed to prevent possible adverse effects of the presence of foreign firms on local SMEs. Some examples are batik and crafts, and small retail enterprises. Other policies include local content and subcontracting policies, aimed at reducing the import dependency of domestic industries and developing production linkages between FDI and local SMEs. Policies to protect labour include regional minimum wages aimed at guaranteeing reasonable labour income and worker consumption levels; and local community development programmes, which are required for foreign mining corporations.

The key factor in the spillover effect of FDI inflow in four ASEAN member states, including Indonesia, was the transfer of technology (Lee and Tan, 2006). In the case of Indonesia, FDI has both direct and indirect economic impacts. FDI has a direct impact on Indonesia's output. On the indirect impact, FDI also promotes Indonesia's output growth, which results from technology transfers. The technology transfers into Indonesia will dramatically increase the efficiency of production by domestic firms. Therefore, they will also increase trade activities – both export and import.

Wie and Pangestu (1994) examined the technological capabilities of the Indonesian garment, clothing, and electronics industries to show that Indonesian clothing manufacturers have formed strategic alliances with their Japanese counterparts to open a critical technology transfer stream. Likewise, business ties with foreign firms have been a significant channel of technology transfer for electronics firms, in particular consumer electronics and electronic components. Wie and Pangestu found that technology transfer in the textile industry was limited to the improvement of production capacity, though Japanese counterparts pursued significant, more advanced practices that could help local companies develop their technological capabilities – including pre-investment, plan execution, and technical changes in development and service.

Wie (2001) explained that the significant channels of technology transfer to Indonesia – including FDI, technological licensing agreements, capital goods imports, and involvement in world trade – have generally led to specific production capabilities in terms of developing local industrial technological capabilities.

Temenggung (2006) found a significant and robust increase in productivity in the Indonesian manufacturing industry over the entire period. She identified negative and significant spillovers during the pre-liberalisation period (1975–1986) and neutral and significant spillovers during the post-liberalisation period (1987–2000). The study also found that the spillover effect differs across the two-digit ISIC industry, demonstrating that each economic sector experiences a different impact of the transfer of technology to local partners. This study used plant-level data from the unpublished manufacturing industry surveys (Survei Tahunan Perusahaan Industri Pengolahan) by Statistics Indonesia (BPS) from 1975 to 2000.

The spillover effect of FDI was reflected not only in the transfer of technology but also in technological progress, economies of scale, R&D expenditure, and transfer of knowledge and know-how (Suyanto, Bloch, and Salim, 2012). This study used two productivity measurement methods – the stochastic production frontier and the Malmquist productivity index – with data from 1988 to 2000, in investigating the spillover effects on firms' productivity.[17] The primary data source of this study was the annual survey of Indonesia's medium-sized and large manufacturing sector (Survei Tahunan Statistik Industri Indonesia) conducted by BPS. Suyanto, Bloch, and Salim adopted input–output table analysis for calculating FDI variables for downstream and upstream industries. Their findings confirmed that the spillover effects from FDI on productivity growth are derived from technical and scale efficiencies as well as from technology.

Based on a literature survey of the role of FDI in poverty alleviation, Tambunan (2005) argued that FDI may have positive effects on poverty reduction, mainly through three channels: (i) labour-intensive economic growth, with export growth as the most crucial engine; (ii) technological, innovation, and knowledge spillover effects from FDI-based firms on the local economy; and (iii) poverty alleviation government programmes or projects financed by tax revenues collected from FDI-based firms. Preliminary findings based on secondary data from

[17] Test procedures such as Chow and Hausman were used to choose the appropriate model amongst the three competing models, i.e. the common or pooled effect, the fixed effect with least squares dummy variables, and the random effect of generalised least squares.

Indonesia find some support for the role of FDI in poverty alleviation and consumption of the poor through labour-intensive export growth. Tambunan found that the implementation of an open-door policy in the New Order government proved that FDI could make significant contributions to economic development.[18]

7. Policy Implications and Recommendations

Indonesia experienced its worst net export performance in non-oil and gas exports in 2018. The trade surplus decreased significantly from $20.4 billion in 2017 to only $3.8 billion due to the 19.7% increase in imports, while exports only increased by about 6.2%. Part of the reason for the fall in exports was the decline in investment, which appears to be affected by the investment climate, including uncertainties resulting from the increase in the use of trade protection instruments through NTMs in Indonesia.

This paper shows how Indonesia has dealt with globalisation and the swings between outward- and inward-looking policy in various economic circumstances. To increase its exports, Indonesia must improve its supply-side competitiveness by supporting the manufacturing sector to be competitive and start producing higher quality intermediate goods that can compete with imports. Therefore, Indonesia has to commit to the AFTA agreement, and its expansion on the ASEAN Plus frameworks in the RCEP, as ASEAN plays a central role as the regional hub. For decades, Indonesia’s liberalisation and protectionist measures were a reaction to global trends and declining productivity, without proper long-run liberalisation, with the strategic purpose of gaining the long-term benefits of trade and investment liberalisation.

This paper found that globalisation through trade liberalisation has led to a positive impact on Indonesia’s economic growth, reducing wage inequality and the use of child labour, and increasing labour absorption, including women’s participation in the labour market. In terms of trade, globalisation contributes to Indonesia’s economic growth, productivity, structural economic transformation, SMEs, poverty alleviation, reduction in inequality, and enhanced trade in services such as tourism.

[18] Tambunan (2005) adopted and adapted a linear regression method and data from the National Socio-Economic Survey (SUSENAS), an annual cross-sectional survey of households by the BPS for 1974–2002 for poverty analysis.

The investment liberalisation has had positive impacts on Indonesia's economic growth; and spillover effects from technology transfer, technological progress, know-how, and knowledge. These improve the role of SMEs and reduce the poverty level.

The impact of globalisation is dynamic and has had an overall positive impact in the long term, as shown through the trade and investment liberalisation channels. However, it has also created costs, which have impacted uncompetitive sectors through job losses (Baldwin, Mutti, and Richardson, 1980; Stiglitz, 2007; Dutt, Mitra, and Ranjan, 2009; Ranjan, 2012). Globalisation generates trade creation with other countries at the immediate cost of non-competitive local producers, while the benefit of globalisation through the investment creation comes afterwards.

The challenge for Indonesia is to ensure that it keeps the globalisation strategy focused on the long-term net positive benefits, while building a political and policy narrative to gain public support on this longer-term strategy. Indonesia also needs to focus on how to manage the immediate costs and transition (e.g. providing social safety nets), reskilling labour, adopting a good regulatory framework, and improving competitiveness (e.g. reducing the costs of doing business and improving the investment climate).

Lastly, Indonesia has to obtain the maximum benefit from globalisation at all levels of economic cooperation – global, regional, mega-regional, bilateral, and unilateral. It also needs to ensure consistency and make an effort to widen its markets, with the intention of allowing for more possibility of the trade and investment nexus, and the development of regional global value chains (Hidayat, Hidayat, and Hendrix, 2017; Nurika and Amaliyah, 2017; Sidharta and Nihaaiyyah, 2017). Indonesia must commit to globalisation consistently and, with the right strategy, can ensure it reaps net benefits.

References

Agusalim, L. (2017), 'The Dynamic Impact of Trade Openness on Poverty: An Empirical Study of Indonesia's Economy', *International Journal of Economics and Financial Issues*, 7(1), pp.566–74.

Amiti, M. and J. Konings (2007), 'Trade Liberalization, Intermediate Inputs, and Productivity: Evidence from Indonesia', *American Economic Review*, 97(5), pp.1611–38.

Balassa, B. (1978), 'Exports and Economic Growth: Further Evidence', *Journal of Development Economics*, 5(2), pp.181–89.

Baldwin, R., J. Mutti., and J.D. Richardson (1980), 'Welfare Effects on the United States of a Significant Multilateral Tariff Reduction', *Journal of International Economics*, 10(3), pp.405–23.

Bank Indonesia (2019), *Balance of Payments, Data on Current Account, Secondary Income*. Jakarta: Bank Indonesia. https://www.bi.go.id/en/publikasi/neraca-pembayaran/Pages/npitw419.aspx (accessed 1 December 2019).

BAPPENAS (2018), 'Visi Indonesia 2045'. Jakarta: National Development Planning Agency.

Beaulieu, E. and D. Pakrashi (2013), 'Do WTO Members Employ Less Child Labour? *Indian Growth and Development Review*, 6(1), pp.148–59.

Billmeier, A. and T. Nannicini (2013), 'Assessing Economic Liberalization Episodes: A Synthetic Control Approach', *The Review of Economics and Statistics*, 95(3), pp.983–1001.

Colombatto, E. (1990), 'An Analysis of Exports and Growth in LDCs', *Kyklos*, 43(4), pp.579–97.

Dick, H. (1979), 'Survey of Recent Developments', *Bulletin of Indonesian Economic Studies*, 15(1), pp.1–44.

Dix-Carneiro, R. (2014), 'Trade Liberalization and Labor Market Dynamics', *Econometrica*, 82(3), pp.825–85.

Dutt, P., D. Mitra, and P. Ranjan (2009), 'International Trade and Unemployment: Theory and Cross-National Evidence', *Journal of International Economics*, 78(1), pp.32–44.

Edmonds, E.V. and N. Pavcnik (2005), 'Child Labor in the Global Economy', *Journal of Economic Perspectives*, 19(1), pp.199–220.

Gnangnon, S. (2018), 'Multilateral Trade Liberalization and Economic Growth', *Journal of Economic Integration*, 33(2), pp.1261–301.

Hayakawa, K. and T. Matsuura (2017), 'Trade Liberalization, Market Share Reallocation, and Aggregate Productivity: The Case of the Indonesian Manufacturing Industry', *The Developing Economies*, 55(3), pp.230–49.

Hayakawa, K., T. Matsuura, and S. Takii (2017), 'Does Trade Liberalization Boost Quality Upgrading? Evidence from Indonesian Plant-Product-Level Data', *The Developing Economies*, 55(3), pp.171–88.

Hasan, R., D. Mitra, P. Ranjan, and R.N. Ahsan (2012), 'Trade Liberalization and Unemployment: Theory and Evidence from India', *Journal of Development Economics*, 97(2), pp.269–80.

Hidayat, A., M. Hidayat, and T. Hendrix (2017), 'The Effect of Indonesia SMEs Participation in Global Value Chain to Enhance Competitiveness', in *A New Paradigm in Trade Governance to Increase Domestic Efficiency and to Strengthen Global Competitiveness*, The Proceeding of The International Conference and Call for Paper on Trade 5th - 6th September 2017. Jakarta: Ministry of Trade, pp.207–238.

James, W. (2001), 'The Gains from Open International Trade and Investment in the Deregulation Era: Implications for Indonesia's International Economic Policy in the 21st Century', *ICSEAD Working Paper Series*, Vol. 2001-06. Kitakyushu: International Centre for the Study of East Asian Development.

JETRO (2019), '2018 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania'. Tokyo: Japan External Trade Organization. https://www.jetro.go.jp/ext_images/en/reports/survey/pdf/rp_firms_asia_oceania2018.pdf (accessed 19 May 2019).

Juoro, U. (1993), 'Financial Liberalization in Indonesia: Interest Rates, Money Market Instruments, and Bank Supervision', *ASEAN Economic Bulletin*, 9(3), pp.323–37.

Khaliq, A. and I. Noy (2007), 'Foreign Direct Investment and Economic Growth: Empirical Evidence from Sectoral Data in Indonesia', *Working Papers*, No. 200726, University of Hawaii at Manoa. Department of Economics.

King, D.Y. (2000), 'Corruption in Indonesia: A Curable Cancer?', *Journal of International Affairs*, 53(2), pp.603–24.

Kis-Katos, K. and R. Sparrow (2009), 'Child Work and Schooling Under Trade Liberalization in Indonesia', *Discussion Paper Series*, No. 8. Freiburg: University of Freiburg, Department of International Economic Policy.

Kis-Katos, K. and R. Sparrow (2011), 'Child Labor and Trade Liberalization in Indonesia', *The Journal of Human Resources*, 46(4), pp.722–49.

Kis-Katos, K. and R. Sparrow (2015), 'Poverty, Labor Markets and Trade Liberalization in Indonesia', *Journal of Development Economics*, 117, pp.94–106.

Kis-Katos, K., J. Pieters, and R. Sparrow (2018), 'Gender-Specific Effects of Trade Liberalization in Indonesia, *IMF Economic Review*, 66, pp.763–93.

Kuncoro, A. (2012), 'Globalization and Innovation in Indonesia: Evidence from Micro-Data on Medium and Large Manufacturing Establishments', *ERIA Discussion Paper Series*, ERIA-DP-2012-09. Jakarta: Economic Research Centre for ASEAN and East Asia.

Kuncoro, A. (2014), 'Small and Large Firm Performance Gaps in Indonesia in the Era of Globalization: Evidences from Micro-Data on Manufacturing Establishments', in C.H. Hahn and D. Narjoko (eds.) *Globalization and Performance of Small and Large Firms*. ERIA Research Project Report 2013-3. Jakarta: Economic Research Centre for ASEAN and East Asia, pp.IX-1-IX-29.

Krueger, A.O. (1978), *Liberalization Attempts and Consequences*. New York: National Bureau of Economic Research.

Lee, H.H. and H.B. Tan (2006), 'Technology Transfer, FDI, and Economic Growth in the ASEAN Region', *Journal of the Asia Pacific Economy*, 11(4), pp.394–410.

Marks, S.V. (2017), 'Non-Tariff Trade Regulations in Indonesia: Nominal and Effective Rates of Protection', *Bulletin of Indonesian Economic Studies*, 53(3), pp.333–57.

Marks, S.V. and S. Rahardja (2012), 'Effective Rates of Protection Revisited for Indonesia', *Bulletin of Indonesian Economic Studies*, 48(1), pp.57–84.

de Mello, L.R. (1997), 'Foreign Direct Investment in Developing Countries and Growth: A Selective Survey', *The Journal of Development Studies*, 34(1), pp.1–34.

de Melo, J. and D. Tarr (1992), *A General Equilibrium Analysis of US Foreign Trade Policy*. Cambridge, MA: MIT Press.

Narjoko, D. and S. Urata, (2019), 'Firm Adjustment to Trade Policy Changes in East Asia', *ADBI Working Paper Series*, No. 945. Tokyo: Asian Development Bank Institute.

Nurika, R.R. and R. Amaliyah (2017), 'Eco-Friendly Global Value Chain: How Indonesian SMEs Expand Their Business While Maintaining Sustainable Development', in *A New Paradigm in Trade Governance to Increase Domestic Efficiency and to Strengthen Global Competitiveness*, The Proceeding of The International Conference and Call for Paper on Trade 5th - 6th September 2017. Jakarta: Ministry of Trade, pp.189–206.

OECD (2015), 'Trade in Value-Added: Indonesia', *OECD-WTO Trade in Value Added*, October. https://www.oecd.org/sti/ind/tiva/CN_2015_Indonesia.pdf (accessed 12 May 2019).

Okamoto, Y. and F. Sjöholm (2005), 'FDI and the Dynamics of Productivity in Indonesian Manufacturing', *The Journal of Development Studies*, 41(1), pp.160–82.

Otsuka, M., S. Thomsen, and A. Goldstein (2011), 'Improving Indonesia's Investment Climate', *OECD Investment Insights*, Issue 1 (February). Paris: Organisation for Economic Co-operation and Development.

Mattoo, A., A. Mulabdic, and M. Ruta (2019), 'Trade Creation and Trade Diversion in Deep Agreements', *Policy Research Working Paper*, No. 8206. Washington, DC: World Bank.

Ministry of Trade, Indonesia (2015), *Rencana Strategis Direktorat Jenderal Perundingan Perdagangan Internasional 2015–2019* (Strategic Plan of Directorate General of International Trade Negotiation). Jakarta: Ministry of Trade (Kemendag).

Ministry of Trade, Indonesia (2018), *Info Perdagangan* (Trade Information). Jakarta: Ministry of Trade (Kemendag).

Pangestu, M. and M.K. Hendytio (1997), 'Survey Responses for Women Workers in Indonesia's Textile, Garment, and Footwear Industries', *Policy Research Working Paper*, No. 1755. Washington, DC: World Bank.

Pangestu, M., S. Rahardja, and L.Y. Ing (2015), 'Fifty Years of Trade Policy in Indonesia: New World Trade, Old Treatments', *Bulletin of Indonesian Economic Studies*, 51(2), pp.239–61.

Parikh, A. (2004), 'Relationship Between Trade Liberalization, Growth, and Balance of Payments in Developing Countries: An Econometric Study', *HWWA Discussion Paper*, No. 286, Hamburg: Hamburg Institute of International Economics (HWWA).

Permani, R. (2011), ‘The Impacts of Trade Liberalisation and Technological Change on GDP Growth in Indonesia: A Meta Regression Analysis’, *Global Economy Journal*, 11(4), pp.1–30.

Pincus, J. and R. Ramli (1998), ‘Indonesia: From Showcase to Basket Case’, *Cambridge Journal of Economics*, 22(6), pp.723–34.

Rahardja, S. et al. (2015), *Openness in Trade and Investment: Putting the Debate in Indonesia’s Development Context – Executive Summary for Policy Note on Openness, Growth, and Productivity*. Washington, DC: World Bank.

Ramstetter, E. and F. Sjöholm (2006), ‘Multinational Corporations in Indonesia and Thailand: An Overview of Effects on Wages, Productivity, and Export’, *East Asian Economic Perspectives*, 17(2), pp.78–102.

Rajan, R. and R. Sen (2002), ‘Singapore’s New Commercial Trade Strategy: The Pros and Cons of Bilateralism’, *CIES Discussion Paper,* No. 0202. Adelaide: Centre for International Economic Studies.

Ranjan, P. (2012), ‘Trade Liberalization, Unemployment, and Inequality with Endogenous Job Destruction’, *International Review of Economics and Finance*, 23, pp.16–29.

Ratnaike, Y. (2012), ‘Is There an Empirical Link between Trade Liberalisation and Export Performance?’, *Economics Letters*, 117(1), pp.375–78.

Revindo, M.D. and C. Gan (2017), ‘Factors Influencing SMEs’ Engagement in Direct Export Activities’, *LPEM-FEBUI Working Paper*, No. 011. Jakarta: University of Indonesia, Faculty of Economics and Business.

Robertson-Snape, F. (1999), ‘Corruption, Collusion and Nepotism in Indonesia’, *Third World Quarterly*, 20(3), pp.589–602.

Rock, M.T. (2003), ‘The Politics of Development Policy and Development Policy Reform in New Order Indonesia’, *William Davidson Institute Working Paper*, No. 632. Ann Arbor, MI: University of Michigan, William Davidson Institute.

Sandee, H., B. Isdijoso, and S. Sulandjari (2002), *SME Clusters in Indonesia: An Analysis of Growth Dynamics and Employment Conditions*. Jakarta: International Labour Office.

Seng, T.S., R. Emmers, M.Caballero-Anthony, A.Acharya, B. Desker, K.C. Guan (2002), *A New Agenda for the ASEAN Regional Forum*, Singapore: Institute of Defence and Strategis Studies – Nanyang Technological University

Sidharta, H.E. and Z. Nihaaiyyah (2017), ‘Strengthening Competitive Power Trading Through Improvement of National Logistics to SMEs Exports in Global Value Chain’, in *A New Paradigm in Trade Governance to Increase Domestic Efficiency and to Strengthen Global Competitiveness*, The Proceeding of The International Conference and Call for Paper on Trade 5th - 6th September 2017. Jakarta: Ministry of Trade, pp.151–60.

Sinha, D. and T. Sinha (2002), ‘Openness, Investment and Economic Growth in Asia’, *Indian Economic Journal*, 49(4), pp.90–95.

Sjöholm, F. (1999), 'Productivity Growth in Indonesia: The Role of Regional Characteristics and Direct Foreign Investment', *Economic Development and Cultural Change*, 47(3), pp.559–84.

Sofjan, M. (2017), 'The Effect of Liberalization on Export-Import in Indonesia', *International Journal of Economics and Financial Issues,* 7(2), pp.672–76.

Stiglitz, J. (2007), *Making Globalization Work*. New York: WW Norton & Co.

Sugiyarto, G., A. Blake, and M. Sinclair (2003), 'Tourism and Globalization: Tourism and Globalization', *Annals of Tourism Research,* 30(3), pp.683–701.

Suyanto, H. Bloch, and R.A. Salim (2012), 'Foreign Direct Investment Spillovers and Productivity Growth in Indonesian Garment and Electronics Manufacturing', *Journal of Development Studies*, 48(10), 1397–1411.

Takacs, W.E. and L.A. Winters (1991), 'Labour Adjustment Costs and British Footwear Protection', *Oxford Economic Papers,* 43(3), pp.479–501.

Takii, S. (2014), 'Import Penetration, Export Orientation, and Plant Size in Indonesian Manufacturing', *ERIA Discussion Paper Series*, No. ERIA-DP-2014-17. Jakarta: Economic Research Centre for ASEAN and East Asia.

Tambunan, T. (2005), 'Economic Growth, Appropriate Policies and Poverty Reduction in a Developing Country: Some Experience from Indonesia', *South Asia Economic Journal,* 6(1), pp.59–78.

Tambunan, T.T. (2007), 'Trade and Investment Liberalization Effects on Small and Medium-Sized Enterprise Development: A Literature Survey and Case Study of Indonesia', in *Towards Coherent Policy Frameworks: Understanding Trade and Investment Linkages,* Studies in Trade and Investment, No. 62. Bangkok: United Nations Economic and Social Commission for Asia and the Pacific.

Tambunan, T. (2008), 'Trade Liberalization Effects on the Development of Small and Medium-Sized Enterprises in Indonesia: A Case Study', *Asia-Pacific Development Journal*, 15(2), pp.35–59.

Tambunan, T. (2011), 'The Impacts of Trade Liberalization on Indonesian Small and Medium-Sized Enterprises', *TKN Policy Paper.* Winnipeg: International Institute for Sustainable Development.

Temenggung, D. (2006), 'Productivity Spillovers From Foreign Direct Investment: Indonesian Manufacturing Industry's Experience 1975–2000'. Canberra: Australian National University, Economics Division, Research School of Pacific and Asian Studies.

United Nations Department of Economic and Social Affairs, Population Division (2015), Trends in International Migrant Stock: The 2015 Revision. https://www.un.org/en/development/desa/population/migration/data/estimates2/estimates15.asp (accessed 9 September 2019).

Urata, S. and D. Narjoko (2017), 'International Trade and Inequality', *ADBI Working Paper Series,* No. 675. Tokyo: Asian Development Bank Institute.

Verico, K. (2017), *The Future of the ASEAN Economic Integration*. London: Palgrave Macmillan.

Verico, K. (Forthcoming a), *Review of Indonesia Manufacturing Sector*, Jakarta: Economic Research Institute for ASEAN and East Asia.

Verico, K. (Forthcoming b), 'Pertumbuhan Ekonomi Indonesia', *Buku ILUNI FEB UI*, Jakarta: Ikatan Alumni UI FEB/Alumnae Association of Faculty of Economics and Business, University of Indonesia.

Viner, J. (1950), *The Customs Union Issue*. New York: Carnegie Endowment for International Peace.

Wacker, K.M., P. Grosskurth, and T. Lakemann (2014), 'Terms of Trade, Foreign Direct Investment, and Development: A Case of Intra-Asian 'Kicking Away the Ladder'?', *ADB Working Paper Series on Regional Economic Integration*, No. 122. Tokyo: Asian Development Bank Institute.

Warr, P.G. (1992), 'Comparative Advantage and Protection in Indonesia', *Bulletin of Indonesian Economic Studies*, 28(3), pp.41–70.

Widodo, T. (2008), 'The Structure of Protection in Indonesian Manufacturing Sector', *ASEAN Economic Bulletin*, 25(2), pp.161–78.

Wie, T.K. and M. Pangestu (1994), 'Technological Capabilities and Indonesia's Manufactured Exports', Revised Report for UNCTAD. SAREC Project on Technological Dynamism and the Export of Manufactures from Developing Countries. Jakarta: SAREC Project.

Wie, T.K. (2001), 'The Role of Foreign Direct Investment in Indonesia's Industrial Technology Development', *International Journal of Technology Management*, 22(5-6), pp.583–98.

World Bank (2019), *World Development Indicators*. Washington, DC: World Bank. https://data.worldbank.org/indicator/TM.TAX.MRCH.SM.AR.ZS?locations=ID (accessed 15 May 2019).

Wymenga, P.S. (1991), 'The Structure of Protection in Indonesia in 1989', *Bulletin of Indonesian Economic Studies*, 27(1), pp.127–53.

Ying, Y.-H., K. Chang, and C.-H. Lee (2014), 'The Impact of Globalization on Economic Growth', *Romanian Journal of Economic Forecasting*, XVII (2), pp.24–34.

ERIA Discussion Paper Series

No.	Author(s)	Title	Year
2020-10 (no. 337)	Yuziang YANG and Hongyong ZHANG	The Value-Added Tax Reform and Labour Market Outcomes: Firm-Level Evidence from China	August 2020
2020-09 (no. 336)	Juthathip JONGWANICH, Archanun KOHPAIBOON, Ayako OBASHI	Technological Advancement, Import Penetration, and Labour Markets: Evidence from Thai Manufacturing	August 2020
2020-08 (no. 335)	Duc Anh DANG and Thu Thu VU	Technology Imports and Employment in Developing Countries: Evidence from Viet Nam	August 2020
2020-07 (no. 334)	Hiroaki ISHIWATA, Hiroyuki WADA, Koji SUZUKI, Makoto IKEDA, Naoto TADA	A Quantitative Analysis of Disaster Risk Reduction Investment Effects for Sustainable Development: Indonesia Case Study	June 2020
2020-06 (no. 333)	Dao Ngoc TIEN, Nguyen Quynh HUONG	Assessment of Industrial Cluster Policies in Viet Nam: The Role of Special Economic Zones in Attracting Foreign Direct Investment	June 2020
2020-05 (no. 332)	Ayako OBASHI and Fukunari KIMURA	New Developments in International Production Networks: Impact of Digital Technologies	June 2020
2020-04 (no. 331)	Upalat KORWATANASAKUL, Youngmin BAEK, Adam MAJOE	Analysis of Global Value Chain Participation and the Labour Market in Thailand: A Micro-level Analysis	May 2020
2020-03 (no. 330)	Ha Thi Thanh DOAN and Huong Quynh NGUYEN	Trade Reform and the Evolution of Agglomeration in Vietnamese Manufacturing	April 2020
2020-02 (no. 329)	Kazunobu HAYAKAWA, Tadashi ITO, Shujiro URATA	Labour Market Impacts of Import Penetration from China and Regional Trade Agreement Partners: The Case of Japan	April 2020
2020-01 (no. 328)	Fukunari KIMURA, Shandre Mugan THANGAVELU, Dionisius A. NARJOKO, Christopher FINDLAY	Pandemic (COVID-19) Policy, Regional Cooperation, and the Emerging Global Production Network	April 2020

ERIA discussion papers from the previous years can be found at:

http://www.eria.org/publications/category/discussion-papers