



Indonesia in the Global and Regional Trade Agreement : Sitting on a Fence

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Introduction



- ✓ Indonesia is a land of contradiction.
- ✓ Indonesia was born as a free trader. Yet, reluctant to accept globalization.
- ✓ Mistrust to the current international institutions and architecture, particularly the IMF. Yet, remained broadly open over this period and even becoming more active in international economic diplomacy, particularly in the last seven years.

Questions to be addressed



- ✓ Does Indonesia have a potential to play a role in East Asia or world economy?
- ✓ If it does, what are the constraints?
- ✓ Why Indonesia tend to sit on a fence and reluctant to engage with the global economy?

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- ✓ Does Indonesia have a potential to play a role in East Asia or world economy?

Demographic dividend in 2025, but aging population in 2050

TABLE 1

SUMMARY OF DEPENDENCY AND ECONOMIC SUPPORT RATIOS,
ASIA AND NEAR EAST COUNTRIES, 2000, 2025, AND 2050

	Total dependency ratio			Child dependency ratio			Old age dependency ratio			Economic support ratio		
	2000	2025	2050	2000	2025	2050	2000	2025	2050	2000	2025	2050
East Asia	0.462	0.474	0.649	0.349	0.265	0.266	0.113	0.210	0.383	0.761	0.675	0.575
South East Asia	0.568	0.460	0.570	0.494	0.336	0.308	0.074	0.124	0.262	0.709	0.705	0.661
South Asia	0.649	0.472	0.522	0.573	0.360	0.306	0.076	0.112	0.216	0.658	0.660	0.623
Japan	0.468	0.673	0.838	0.217	0.226	0.254	0.250	0.447	0.583	0.637	0.582	0.545
South Korea	0.393	0.477	0.678	0.299	0.252	0.270	0.094	0.226	0.417	0.647	0.622	0.564
Philippines	0.676	0.458	0.521	0.615	0.353	0.305	0.061	0.105	0.216	0.677	0.672	0.649
Thailand	0.450	0.453	0.660	0.366	0.274	0.278	0.084	0.178	0.382	0.787	0.728	0.653
Indonesia	0.546	0.456	0.573	0.473	0.333	0.313	0.073	0.123	0.260	0.683	0.695	0.652
Bangladesh	0.622	0.428	0.523	0.569	0.344	0.309	0.052	0.084	0.213	0.753	0.761	0.728
India	0.620	0.459	0.531	0.540	0.336	0.300	0.081	0.123	0.232	0.641	0.638	0.601

Source: Mason, Lee, Russo (2000)



the rise of Indonesia's middle class

- ▶ The population share of Indonesia's middle class (defined as consumption of 2005 PPP \$2 – 20 per day) has risen markedly over 2003 to 2010
 - ▶ Most of the growth has been in the lower middle income class

Class	Cut-off	2003	2010
Low	< \$1.25	21.9%	14.0%
	\$1.25 – \$2	40.3%	29.3%
Middle	\$2 - \$4	32.1%	38.5%
	\$4 - \$6	3.9%	11.7%
	\$6 - \$10	1.5%	5.0%
	\$10 - \$20	0.3%	1.3%
High	> \$20	0.1%	0.2%

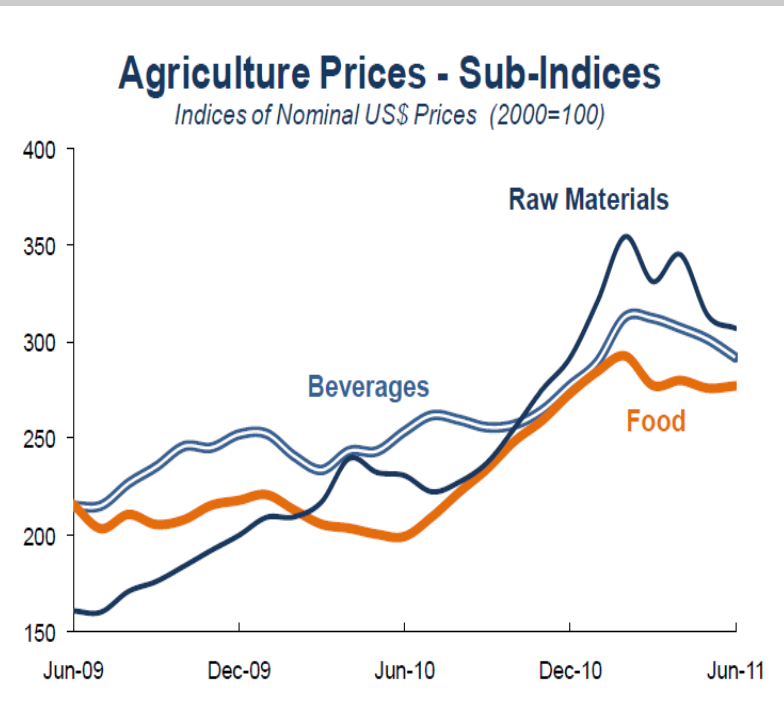
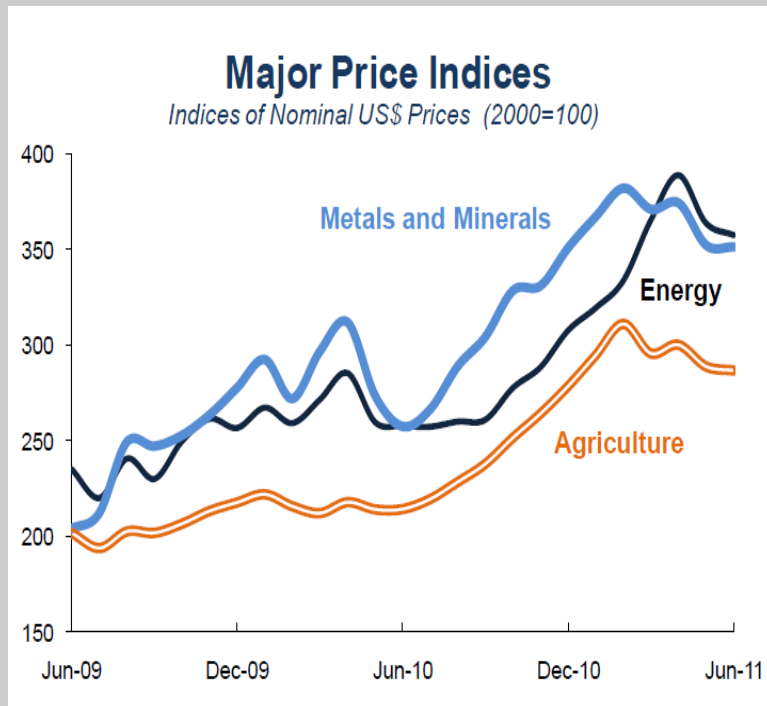
Note: Per capita expenditure per day is adjusted to the 2005 purchasing power parity terms

Source: SUSENAS and World Bank staff calculations

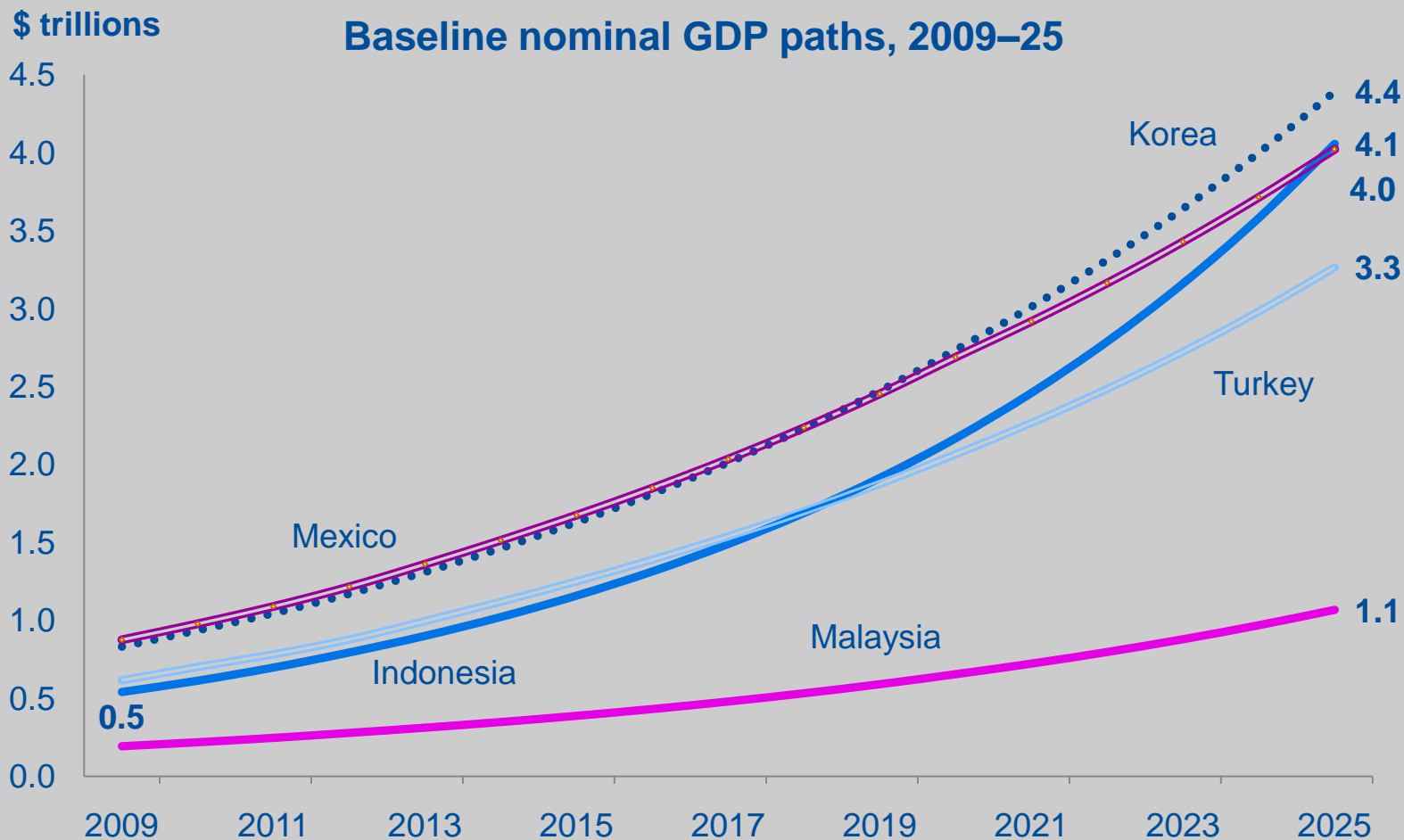
Taken from Chaudhuri, 2011

Cheap Energy and Commodity Era is over

- Strong demand from China, India, Indonesia, Asian and Latin America and Africa (population and income increase)
- Supply constraint from Middle east and extra demand from Japan



... and Indonesia is likely to become one of the larger emerging economies in the world



Sources: Global Development Horizons 2011.

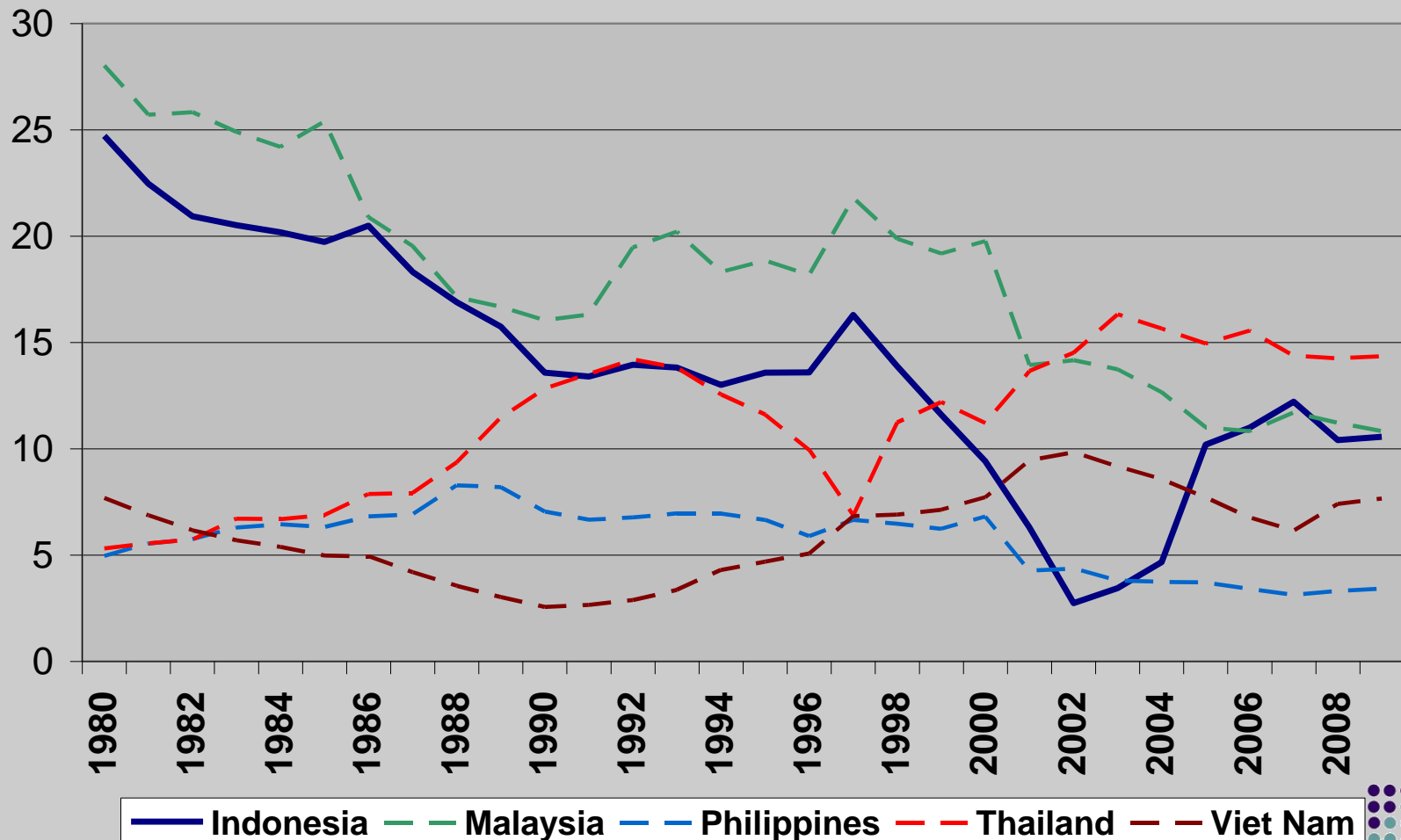


Indonesia in the East Asia Dynamism



Investment competitiveness

Indonesia's FDI inward stock (% total ASEAN FDI inward stock)



Taken from Aswicahyono, 2010



ASEAN Trade and Commercial Policy Regimes

Country	Trade/ GDP, 2007 (%)	FDI Stock/G DP, 2007 (%)	Average Tariff, 2006 (wtd, %)	Econ Freedom (rank)	Reg Quality (% rank)	Doing Business (rank)
Brunei	95	82	na (v low)	na	75.8	14
Cambodia	138	49	10.8	106	34.3	22
Indonesia	55	14	4.3	131	45.4	19
Laos	87	28	9.3	150	9.7	24
Malaysia	200	43	3.4	58	60.4	4
Myanmar	na	29	3.9	176	1	na
Philippines	85	13	3.2	104	51.7	21
Singapore	429	160	0	2	99.5	1
Thailand	144	35	4.7	67	59.9	3
Vietnam	167	60	13.3	145	32.4	13

Taken from Hill, 2010



Indonesia can actually reap the benefit of globalization, but there are some constraints....

POTENTIAL

Demographic dividend

Yes

Strong Consumptions

Yes

High GDP growth/productivity

Yes

Abundant of food and energy

Yes

DESCRIPTION

SUPPORT REQUIRED

Macroeconomic stability/financing

Yes, with support from foreign financing

Good infrastructure/logistics

Progress has been very slow

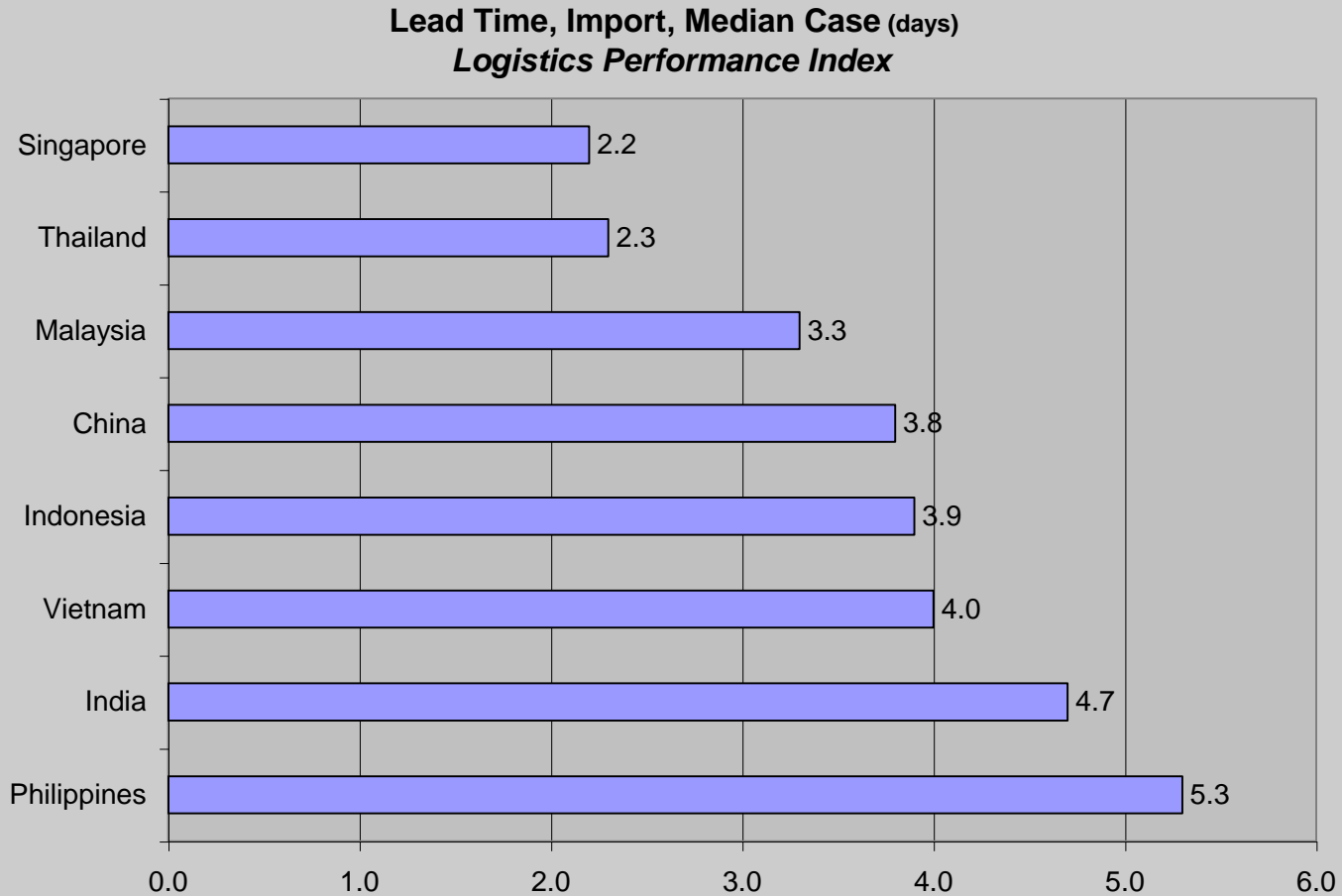
Quality of human resources

Still lagging behind

Political Stability

Yes

Logistics Infrastructure is the most binding constraints

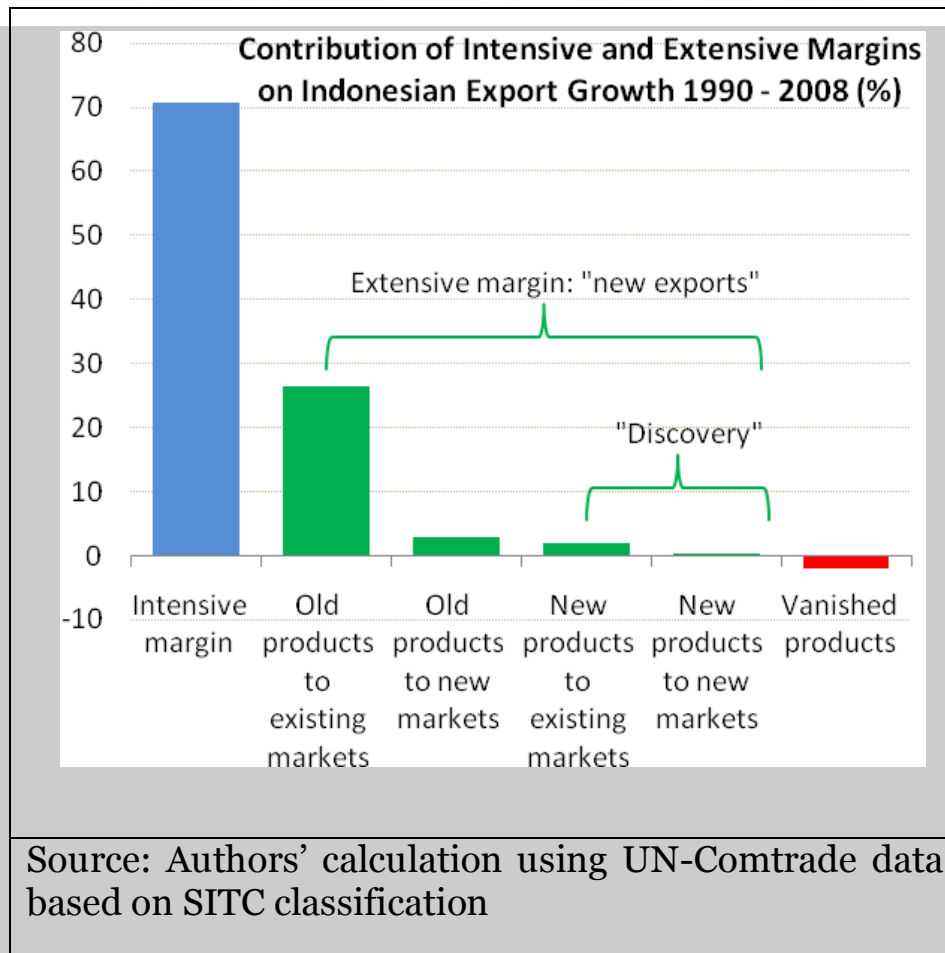


RETAIL PRICES

REGION	RICE	WHEAT FLOUR	SUGAR	COOKING OIL	SALT	CEMENT
EAST JAWA	4,250	3,800	6,000	4,450	1,600	38,000
W. KALIMANTAN	4,400	4,000	5,800	4,500	2,400	37,500
E. KALIMANTAN	4,500	4,000	6,500	4,500	2,000	37,000
S. SULAWESI	4,400	3,500	6,500	4,500	2,000	30,500
EAST NUSA TENGGARA	4,200	4,500	5,800	6,300	2,000	31,000
Merauke	5,000	7,000	7,000	6,670	3,000	62,000
Nabire	6,000	10,000	11,000	11,000	4,000	230,000
Paniai	10,000	7,500	8,000	7,000	8,000	60,000

Source: MoT

In technology: no self discovery



Source: Basri and Rahardja (2011)

TABLE 5 *Education Attainment of Population*

	1991	2001	2002	2003	2004	2005
Indonesia						
Literacy rate, adults ^a	81.7 ^d				90.4	
Persistence to last grade of primary ^b		86.0	86.4		85.4	79.6
School enrolment, secondary ^c	44.3	56.7	58.0	61.1	63.3	62.2
School enrolment, tertiary ^c		14.4	15.0	16.1	16.6	17.0
Mexico						
Literacy rate, adults ^a	87.7 ^d	90.7 ^e	90.4		91.0	91.7
Persistence to last grade of primary ^b		89.0	91.3	90.4	91.6	92.2
School enrolment, secondary ^c	53.4	74.5	77.2	81.3	83.3	84.7
School enrolment, tertiary ^c	14.7	20.5	21.8	23.0	24.3	25.3
China						
Literacy rate, adults ^a	77.6 ^d	90.8 ^e				
Persistence to last grade of primary ^b						
School enrolment, secondary ^c	48.9	65.0		70.1		75.5 ^g
School enrolment, tertiary ^c	2.9			15.4		21.6 ^g
India						
Literacy rate, adults ^a	47.7	60.6				
Persistence to last grade of primary ^b		61.6		78.8	73.0	
School enrolment, secondary ^c	41.6	46.1	47.8	50.1	51.5	53.8
School enrolment, tertiary ^c	6.0	9.8	10.3	10.8	11.2	11.0
Brazil						
Literacy rate, adults ^a		86.4 ^e			88.6	
Persistence to last grade of primary ^b		80.2 ^e				
School enrolment, secondary ^c		106.6	109.5	102.0	105.7	105.5
School enrolment, tertiary ^c	11.2	17.8	20.2	22.3	23.8	25.5
Malaysia						
Literacy rate, adults ^a	82.9	88.7 ^e				
Persistence to last grade of primary ^b	95.7		97.7			
School enrolment, secondary ^c	56.9	65.1	65.8	71.3	72.4	69.1
School enrolment, tertiary ^c		25.5	28.1	31.3	30.7	28.6
Philippines						
Literacy rate, adults ^a	93.6 ^d	92.6 ^e		92.6		
Persistence to last grade of primary ^b		75.5	73.7	72.4	71.9	70.7
School enrolment, secondary ^c	70.7	77.0	81.7	83.7	85.6	84.9
School enrolment, tertiary ^c			30.5	29.4	28.8	28.1

Indonesian Trade and the East Asian *Production Network: Goodbye before Fully Joining?*

	Indonesia	China	Malaysia	Philippines	Thailand	Vietnam
Average growth in non-oil export values (2004-2007, %)	17.0	28.2	10.5	7.8	16.5	23.9
Contributors to export growth						
Manufactures (%)	38.9	94.9	75.1	73.3	80.7	69.1
Agriculture, forestry, fishery (%)	35.9	2.2	18.7	6.9	14.7	28.6
Mining & minerals (%)	23.7	2.6	3.6	18.2	3.0	1.0
Share of parts and components in intra Asian trade (%)	11.2	20.1	22.5	29.0	18.5	10.8

Source: UN-Comtrade, authors calculation

Should we say good bye to export led growth strategy?

Comovements between Innovations in Private Consumption with Innovations of GDP Components ^a

Lags	Components of GDP		
	Government consumption	Gross fixed capital formation	Exports
0	0.12	0.06	0.24
-1	-0.16	-0.04	-0.27
-2	-0.22	-0.01	-0.41
-3	0.26	-0.07	0.29
-4	0.20	-0.13	0.49

Source: Estimated from BPS National Account

^a Comovements between innovations of each component derived from original data that spans from 2000-I to 2008-IV. Here growth is expressed as annual (year-to-year) growth

Indonesia in economic diplomacy: a land with many contradictions

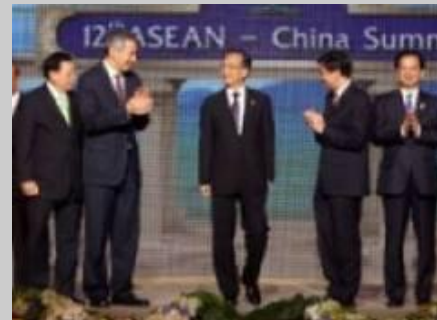


Table 4.2: Major contending groups over economic and trade policy in Indonesia, 1966-2011

Period	Technocrats policy stance	Economic nationalists policy stance	Rent seekers ^{a)} policy stance	Interest groups policy stance	Foreign institutions policy stance	Foreign firms policy stance
1966-72	Market approach	Protectionist	In favour of protectionist policy	Pursued each industry's interests	Pro market	Pursued firms' interest, but tended to protectionist
1973-82	Adopted Import substitution strategy, although still relatively pro market	Protectionist	In favour of protectionist policy	Pursued each industry's interests	Pro market	Pursued firms' interest, but tended to protectionist
1982-85	Began to support economic liberalisation	Protectionist	In favour of protectionist policy	Pursued each industry's interests	Pro market	Pursued firms' interest, but tended to protectionist
1985-90	Market approach and support for economic liberalisation and trade reform	Protectionist	In favour of protectionist policy	Pursued each industry's interests	Pro market	Pursued firms' interest, but tended to pro export
1990-97	Pro market and support for economic liberalisation and trade reform	Protectionist	In favour of protectionist policy	Pursued each industry's interests	Pro market	Pursued firms' interest, but tended to pro export
1998-2008	Pro Market and support for globalization	Protectionist	In favour of protectionist policy	Pursued each industry's interests	Pro market	Pursued firms' interest, but tended to pro export
2008	Pro market	Protectionist	In favour of protectionist policy	Pursued each industry's interests	Pro market	Pursued firms' interest, but tended to pro export

^{a)} Concentrated around military, bureaucrat and Soeharto in the 1970s, and concentrated around Soeharto in the 1980s and 1990s prior to economic crisis.



Indonesia and Trade liberalization

- ✓ Combination of the drop in oil price and the rupiah's devaluation raised the price ratio of traded to non-traded goods, thus raised the profitability of all other non-oil traded sectors in the mid 1980s
- ✓ Technocrats won support from Soeharto in the mid 1980s
- ✓ The role of media, academic
- ✓ 1994 culmination of Indonesia engagement in globalization → join APEC
- ✓ IMF conditionality 1998

Staying open

Indonesia stayed open during crises, in spite of public skepticism, IMF mishandling

- Still perhaps ‘precariously open’, but unlikely to go inward.
- International commitments help prevent major backtracking.
- Pressure of international competition.
- Smugglers take over at much above 25% tariffs.
- Major remaining problems in agriculture, heavy industry, portfolios controlled by ‘anti-reform’ groups.
- Appreciating REER creates additional problems.

Indonesia role in the G-20

- Emerging economies had been hit by the fallout from the financial crisis.
- Need fiscal stimulus to provide relief to the poor and ensure creation of jobs.
- Emerging markets faced difficulties in accessing external financing
- Indonesia submitted a proposal for the establishment of a ***Global Expenditure Support Fund (GESF)*** in order for developing countries to maintain reasonable levels of economic growth and sustain development.

Unilateral, multilateral or FTA?

- ✓ Unilateral: strong pressure for trade protection
- ✓ Multilateral: prospect of WTO and Doha ?
- ✓ FTA: - 2nd best solution for reform?
 - Rule of origin issues?
 - Low rate of utilization
 - Divert the focus from multilateral

Why does Indonesia sit on a fence in the globalization?

- ✓ Oil price/Real exchange rate, supply constraints (high cost economy)
- ✓ Ideas
- ✓ Interests
- ✓ Global economic situation: we don't want to be left out; high food and commodity prices
- ✓ Actors

Continue to sit on a fence?

a taxonomy

Actors

- ✓ Technocrats/
Professionals
- ✓ Politicians
- ✓ Bureaucracy
- ✓ Media
- ✓ Civil Society/ academic
- ✓ International community
(Trade agreement

Policy stance

- ✓ Pro reform but no of
actors are limited
- ✓ Will push reform as long
do not jeopardize the
interest of political
parties (populist policy)
- ✓ Status quo
- ✓ Strong political interest
- ✓ Pro reform, but divided
re issue of globalization
- ✓ Will prevent major back
tracking



Closing remarks



- ✓ Indonesia can reap the benefit from the changing of the global pattern
- ✓ But, Indonesia need to do her homework
- ✓ Tug of war between reformist and protectionist will continue.
- ✓ Indonesia may continue to sit on a fence