



**USAID**  
FROM THE AMERICAN PEOPLE



Seminar Nasional: Isu Keterkaitan Perdagangan Bebas dan  
Ketenagakerjaan  
“How to enhance the Indonesian economy through  
trade”

Peter McCawley, Jakarta, 4 July 2013

## Outline:

(1) Two main issues: Employment; Markets

(2) Seven key messages

- Packages of policies
- Informal sector
- Domestic as well as international trade
- Impact of structural adjustment
- Behind the border issues
- Need for balance
- Role of governments

## Employment as an issue in Indonesia

- Employment (*kesempatan kerja*) is a very important issue in Indonesia
- ... especially for the RPJMN 2015-2019
- Perhaps the most important issue for “inclusive growth” ? (Perhaps more important than social inclusion programs?)
- Recent record is worrying ... “jobless growth”

## Markets as an issue

- The underlying assumption in much international discussion about trade policy is that “it is good to rely on markets”
- ... but this assumption is often not accepted in **Indonesia** (including in law)
- In discussing policy in Indonesia, we do need to consider Indonesian views. It is very unhelpful and unrealistic to ignore these views.

## Two issues about markets in Indonesia ...

- History
- Current experience

## Markets – some history (1) ... Indonesia's history with markets has been mixed --

- (a) Colonialism: 300 years – the benefits seem to have flowed to the colonisers ... the *rakyat* did not seem much benefit
- (b) Post-colonial trading patters ... often seen as favouring the middleman (*tengkulak*)
- (c) SOEs established as a counterweight
- (d) But the X-oriented manufacturing model in the 1980s was very successful for a period

## Markets – some history (2) ... Indonesia's history with markets has been mixed --

(d) Since 2000, the rise of a 'super competitive' China has influenced attitudes to both exports and imports in Indonesia

(e) And for various reasons, Indonesia has missed out on participation in the 'value chain' phenomenon in Asia

## Current experience with markets ...

- There are many difficulties with markets in Indonesia ... (a) monopolies in some areas, and (b) excess competition in other areas
- Competition only works well if it is healthy competition ... too often, much competition in Indonesia does not seem healthy
- Competition policy in Indonesia is not strong ... still being developed (KPPU = *Komisi Pengawas Persaingan Usaha*)

## The report ... Key messages to note

- (1) Packages of policies
- (2) Informal sector
- (3) Domestic as well as international trade
- (4) Impact of structural adjustment
- (5) Behind the border issues
- (6) Need for balance
- (7) Role of governments

## (1) Packages of policies -- 1

- “The political economy argument – that there is more support for liberalization *if adjustment assistance exists* – is important ...”
- A “coherent policy mix” is needed.
- Central point – packages of policies are often needed in government. Simple policy steps are often not possible. Coalitions need to be established to support policy change. But coalitions often mean that packages are needed.

## (1) Packages of policies -- 2

- Policies are about politics ... this is inevitable
- Example: recent fuel price increase ... the policy debate raised a remarkable range of issues
  - shape of the national government budget
  - efficiency of government
  - compensation packages
  - political implications (with 2014 in mind)
  - alternatives to raising prices

## (2) Informal sector

- “...the most relevant work [about trade and labour markets] ignores the existence of the informal economy” (p 3)
- Attention to this issue is very important ... neglect of the issue in the literature, and in policy debates, is remarkable
- Note – even though much of the informal sector produces non-tradable goods, the sector can be greatly affected when the tradable sector sheds jobs (as in 1997-98 in Indonesia)

### (3) Domestic as well as *international* trade

- “... benefits are predicted to flow from reforms that promote greater competition among *domestic* providers.
- “Providing more access to foreign competition ... is only *one aspect* of deregulation.”
- Examples: remarkable domestic growth in Indonesia in telecommunications and airline LCCs (low cost carriers) – LCCs = 20% pa for 10 years

Source: Manning and Haryo paper, 2012.

## (4) Impact of structural adjustment (SA)

- Key message -- sometimes SA is quite worrying
- “Labour appears to bear the bulk of the costs from the adjustment processes following trade reforms.” (p. 12)
- Estimates of the % of the workforce that might need to change jobs after SA “range from ... less than 1% ... to ... 17%”
- There is “evidence that trade liberalization in poor country settings has led to a loss of production and jobs in manufacturing (deindustrialisation) as well as agriculture.”

## (5) “Behind the border” (BtB) issues

- Recently, the focus of international trade discussions has (at last) moved to give more attention to BtB issues.
- These include
  - Infrastructure
  - Bureaucratic reforms
  - Harmonisation of procedures
  - Legal issues
  - Other issues that create a “border effect”

## (6) Need for balance in policies-1

- “Policy rebalancing (is needed when) national public and private sector players are struggling to adjust to changes in global balances
- Policy makers need to develop more balanced packages ( → consider sequencing, timing, coordination across sectors)
- Tailor to local country situations (ie, policy packages are often need to be very specific)

## (6) Need for balance in policies-2

The report recommends that “coherence policies” should have three objectives:

- Promote SA that helps create better jobs, and which does not push people into low-productivity jobs
- Provide appropriate protection in the process of SA
- Guarantee appropriate distribution of the gains from trade ...

... but how much can governments do? →

## (7) Role of governments

- The role of the state (*peran negara*) needs careful consideration
- Several issues ...
  - capacity of governments
  - social protection policies
  - public goods

## (7) Role of governments – 1: Capacity

**TABLE: Indicators of size of government, various countries, 2011**

	Government expenditure (US \$ bill)	Population (mill)		Govt expenditure Per capita (US \$)	GDP share (%)
Australia	522	22,4		23.304	37
US	6.248	321,0		19.464	41
Germany	1.551	81,8		18.961	46
Malaysia	80	28,7		2.787	30
Thailand	78	64,1		1.217	23
Indonesia	156	241,0		647	19
India	434	1207,0		360	27

## (7) Role of governments – 2: Social protection

Important questions are:

- Do governments in developing countries have the resources to (a) fund the programs, and (b) administer them?
- What is the administrative cost of the programs?
- Who, precisely, benefits? Current experience with subsidies and other government programs raises key questions about this.
- Is this approach “in our image?”

## “In our Image”: example --

“...Development must be accompanied by freedom, democracy and respect for human rights, *along the lines of the Western European welfare state*” [emphasis added].

1990: Jan Pronk (Minister for Development Cooperation in the Netherlands) on Dutch aid policy (Government of the Netherlands, 1990)

## (7) Role of governments – 3: Public goods

- The supply of public goods is often a key problem in developing countries
- This problem is related to the issue of the role of markets vs governments
- Certain basic public goods are needed to underpin healthy markets – rule of law; enforcement of contracts; infrastructure; bureaucracy
- “Keep it simple”? Not “good governance” but, rather, “good enough governance”?

--- END ---