



# **Trade and Employment in Indonesia: Policy Working Group (PWG)**



Fourth PWG Meeting  
Jakarta, 7 Jan 2012

# Free Trade Agreements and Indonesia



# Presentation Overview

- Employment Impact Assessment of Trade Agreements within ETE (“Effects of Trade on Employment”) project
- Simulating the Employment Effects of Trade: Methodology Used in Today’s Presentation
- Policy questions for today’s PWG meeting
- FTA Simulations and Policy Recommendations
  - Indonesia (ASEAN)-China (Taofik Hidayat, MOMT)
  - Indonesia-India (Rachmi Agustiyani, BPS)
  - Indonesia-Australia (Arif Rahmat Widiyanto, MOT)

# Employment Impact Assessment of Trade Agreements within ETE Project:

- **Setting Priorities**

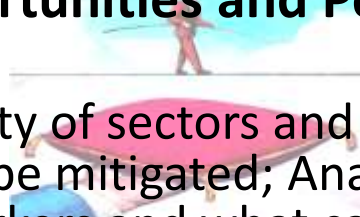
- Issues selected according to expected significance of impact and in consultation with relevant stakeholders

- **Methodology choice**

- Depending on local context (e.g. data availability, selected priorities) and required characteristics of assessment (e.g. transparency, rapid assessment, meeting scientific benchmarks, appropriateness for capacity building)

- **Identifying Risks/Opportunities and Possible Mitigation/Assistance**

- Analysis of vulnerability of sectors and people to negative outcomes and how these could be mitigated; Analysis of opportunities for sectors, firms and workers and what can be done to ensure that a maximum of gains are captured



# Impact Assessment of a Trade Agreement

- A trade impact assessment **does not produce a Yes/No answer** as to whether trade liberalisation is good or bad.
- The results of an impact assessment involve **multiple indicators** (e.g., trade flows, production, average real income, **employment**, investment, equity, poverty, etc) and may be **both quantitative and qualitative**.
- The **choice of indicators** and **significance criteria** used to judge the results of a trade impact assessment need to be determined by national policymakers in consultation with experts and stakeholders.

# Why is Employment an Important Indicator?

- Employment is the **main source of earnings** for the majority of the population
- Employment is generally **productive**, i.e., employed workers produce goods and services needed by society.
- Employment makes workers **feel capable, useful, and successful**
- **Unemployment** reduces **earning capacity**, creates feelings of **desperation**, and may lead to **crime and violence**.
- **Trade** is very likely to have a **cross-cutting and uneven impact on workers**.

Define  
**Trade Policy**  
Scenario



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graph TD; A[Define Trade Policy Scenario] --> B[Generate Trade Shocks using SMART in WITS]; B --> C[Compute Changes in Sectoral Output using SAM-based Multiplier Analysis]; C --> D[Compute Changes in Sectoral Employment];
```

Methodology chosen  
for simulations  
presented today :  
the Effects of Trade on  
Employment (ETE)


Generate **Trade**  
**Shocks** using  
SMART in WITS

Compute **Changes in**  
**Sectoral Output** using  
SAM-based Multiplier  
Analysis

Compute **Changes in**  
**Sectoral Employment**

(assume sectoral  
employment-to-  
output ratios are  
constant)





# Policy Questions for Today's PWG

## Discussion:

### **Competitiveness (opportunities):**

- Taking into account the findings of the presented book and studies, how can Indonesian competitiveness be raised? Should there be a sectoral focus and if yes on which sectors? What can be the role of skills in increasing competitiveness?

### **Labour-Market Adjustment (risks):**

- On the basis of the evidence from the studies, concerning the expected changes in sectors' activities (some are expected to shrink while others, to grow) resulting from trade reform, what feasible measures could be taken to facilitate adjustment to the new economic and employment structure?



# A Social Accounting Matrix (SAM) Analysis to Assess The Employment Effects of Trade Liberalization

## Indonesia-China



Ministry  
of Manpower  
and Transmigration



International  
Labour  
Organization

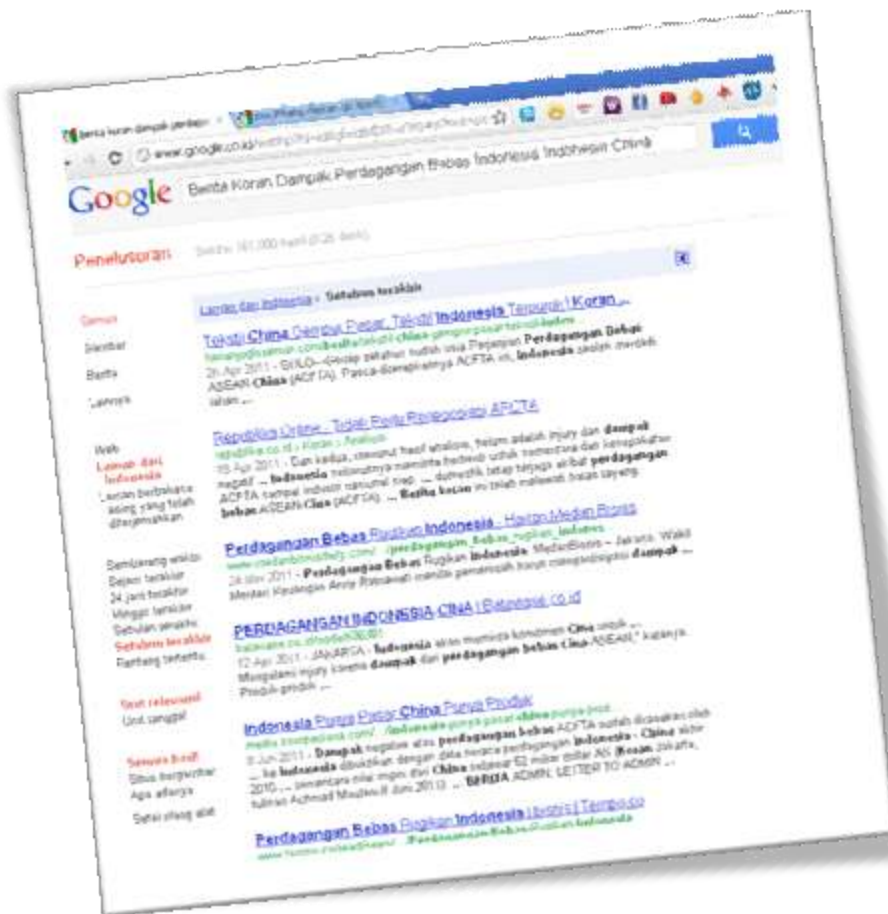
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When you are browsing for news on the FTA Indonesia – China, the Media are broadcasting the real condition of the impact of such an agreement.

# MAIN ISSUE

## Trade Balance of National Output and Employment

Our assessment is focused on the following:

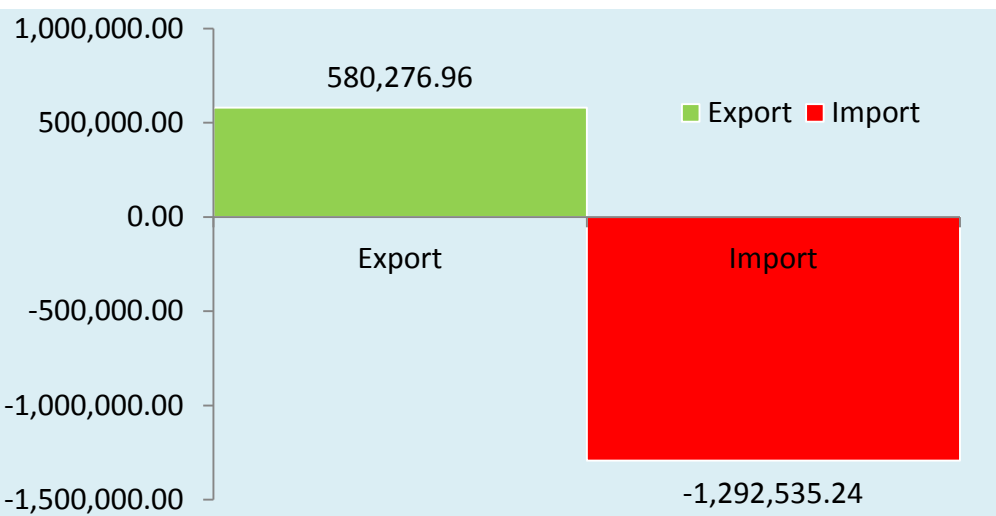


Employment Effects when Import Tariff on both sides is zero percent



# Impacts of Indonesia–China FTA

## Exports Imports Indonesia (USD thousand)



### EXPORT

Other agricultures related	238,025.58	41.02%
Coal Mining, Metal Ore and Petroleum	178,589.07	30.78%

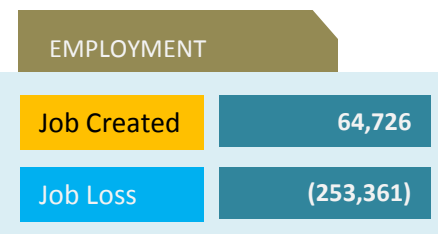
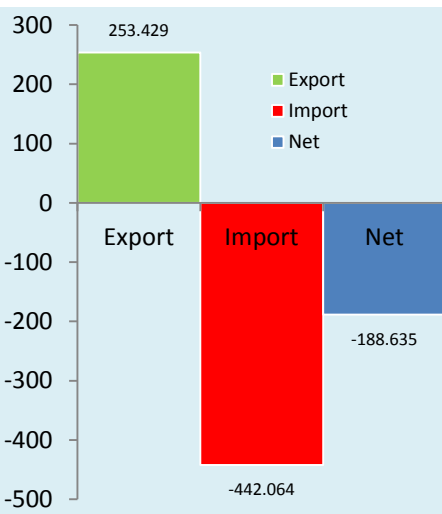
### IMPORT

Weaving, Textile, Garment & Leather	-428,761.18	33.17%
Paper-pulp, Printing, Transportation & Metal goods & Industry	-682,559.47 Ribu	52.81%

Product/Commodity	Export		Import	
	Trade Value	%	Trade Value	%
Crops	2,327.13	0.40	0.00	0.00
Other agricultures related	238,025.58	41.02	215.36	0.02
Animal husbandry (Livestock) & its products	-	0	0	0
Forestry and the Hunt	-	0	0	0
Fishery	-	0	0	0
Coal Mining, Metal Ore and Petroleum	178,589.07	30.78	732.80	0.06
Mining & Quarrying	3,284.36	0.57	83,629.68	6.47
Food, Drink and Tobacco Industries	2,967.75	0.51	22,667.89	1.75
Weaving, Textile, Garment & Leather	27,067.93	4.66	428,761.18	33.17
Wood Industry & Wood's Products	27,864.72	4.80	4,992.65	0.39
Paper-pulp, Printing, Transportation & Metal goods & Industry	43,909.29	7.57	682,559.47	52.81
Chemical, Fertilizer, Clay Products & Cement	56,241.13	9.69	68,976.22	5.34
Total	580,276.96	100.00	1,292,535.24	100.00



# Impact of FTA Indonesia–China Employment



EXPORT		
Primary	155,345	61.30%
Secondary	23,701	9.35%
Tertiary	74,382	29.35 %
Total	253,429	
IMPORT		
Primary	(162,554)	36.77%
Secondary	(98,079)	22.19%
Tertiary	(181,431)	41.04 %
Total	(442,064)	
NET		
Primary	(7,209)	3.82%
Secondary	(74,377)	39.43%
Tertiary	(107,048)	56.75 %
Total	(188,635)	

Sector	Export	Import	NET
Crops	58,837	(112,139)	(53,302)
Other agricultures related	83,480	(20,815)	62,664
Animal husbandary (Livestock) & its products	7,018	(14,678)	(7,659)
Forestry and the Hunt	0,717	(0,939)	(0,221)
Fishery	3,253	(6,450)	(3,197)
Coal Mining, Metal Ore and Petroleum	1,552	(0,755)	0,796
Mining & Quarrying	0,489	(6,778)	(6,289)
Food, Drink and Tobacco Industries	4,907	(10,133)	(5,226)
Weaving, Textile, Garment & Leather	5,926	(55,891)	(49,965)
Wood Industry & Wood's Products	5,635	(4,370)	1,265
Paper-pulp, Printing, Transportation & Metal goods & Ind,	3,198	(19,592)	(16,394)
Chemical, Fertilizer, Clay Products & Cement	2,839	(5,670)	(2,831)
Electricity, Gas and Drinking Water	0,202	(0,599)	(0,397)
Construction	0,995	(1,825)	(0,830)
Trade	32,206	(87,769)	(55,563)
Restaurant	5,906	(12,642)	(6,736)
Hotel Affairs	0,143	(0,344)	(0,201)
Land Transportation	7,318	(18,721)	(11,403)
Air Transportation, Water and Communication	2,743	(6,518)	(3,775)
Transportation Supporting Services and Storage	1,133	(3,123)	(1,990)
Bank and Insurance	1,278	(2,761)	(1,483)
Real Estate and Business Services	1,310	(3,251)	(1,941)
Government & Defence, Education, Health, Film & Other Social Services	13,211	(26,287)	(13,077)
Individual service, Household and Other services	9,133	(20,013)	(10,880)
Total	253,429	(442,064)	(188,635)

# Conclusion

1

In general, sectors that were able to optimize their performance and created employment were, **Food Crops and Other-Agricultural related, Coal Mining, Metal Ore and Petroleum , as well as Forestry** up to 64,726, meanwhile the other sectors experienced job loss of 253,361.

2

The main employment generating sectors were **Agriculture, Coal Mining, Metal Ore and Petroleum, as well as Trade** up to 68.87 percent of the total employment created

The main job losing production sectors were **Food Crops Agriculture, Weaving, Textile and Garment and Leather Industry, as well as Trade** up to 57.87 percent of the total job loss

3

The factors driving employment creation were export activities, particularly the main commodities that generated foreign exchanges were **Other Agriculture, and Coal Mining, Metal Ore and Petroleum** up to 71.81 percent of the total exports

The factors reducing employment opportunities, were those that reduced foreign exchange of the domestic commodities, particularly **Food Crops Agriculture, Weaving, Textile, Garment and Leather as well as Paper pulp Industry, Printing, Transportation and Metal Goods and Industry** up to 57.87 percent of the total imports

# Recommendation

## Production Sector

- 1 Promote export performance through the enhancement of products competitiveness, particularly for other sectors than primary sector that are main generator of foreign exchange.
- 2 Promote the competitiveness of domestic commodities to reduce the decrease in foreign exchange resulted from import activities, especially commodities from **Weaving, Textile, Garment and Leather, as well as Paper pulp Industry, Printing, Transportation and Metal Goods and Industry**, being the most commodities that were pushed out by imported products.
- 3 Enhance the activities of tertiary sector to support the promotion of domestic commodities competitiveness in local market through some incentive choices (facilitating business set-up, funding, product innovation).

## Employment

- 1 Promote human resource productivity to support the promotion of export performance.
- 2 Promote human resource skills to drive new business start-up which at the same time supporting new employment creation.
- 3 Employment of the tertiary sector are the most affected, therefore agreement that regarding foreign workers in Indonesia should be thoroughly reconsidered to protect local labour market

**A SOCIAL ACCOUNTING MATRIX (SAM) ANALYSIS  
TO ASSESS THE EMPLOYMENT EFFECTS OF  
TRADE LIBERALIZATION  
(THE CASE OF FTA INDONESIA – INDIA)**

Impact of FTA Indonesia-India

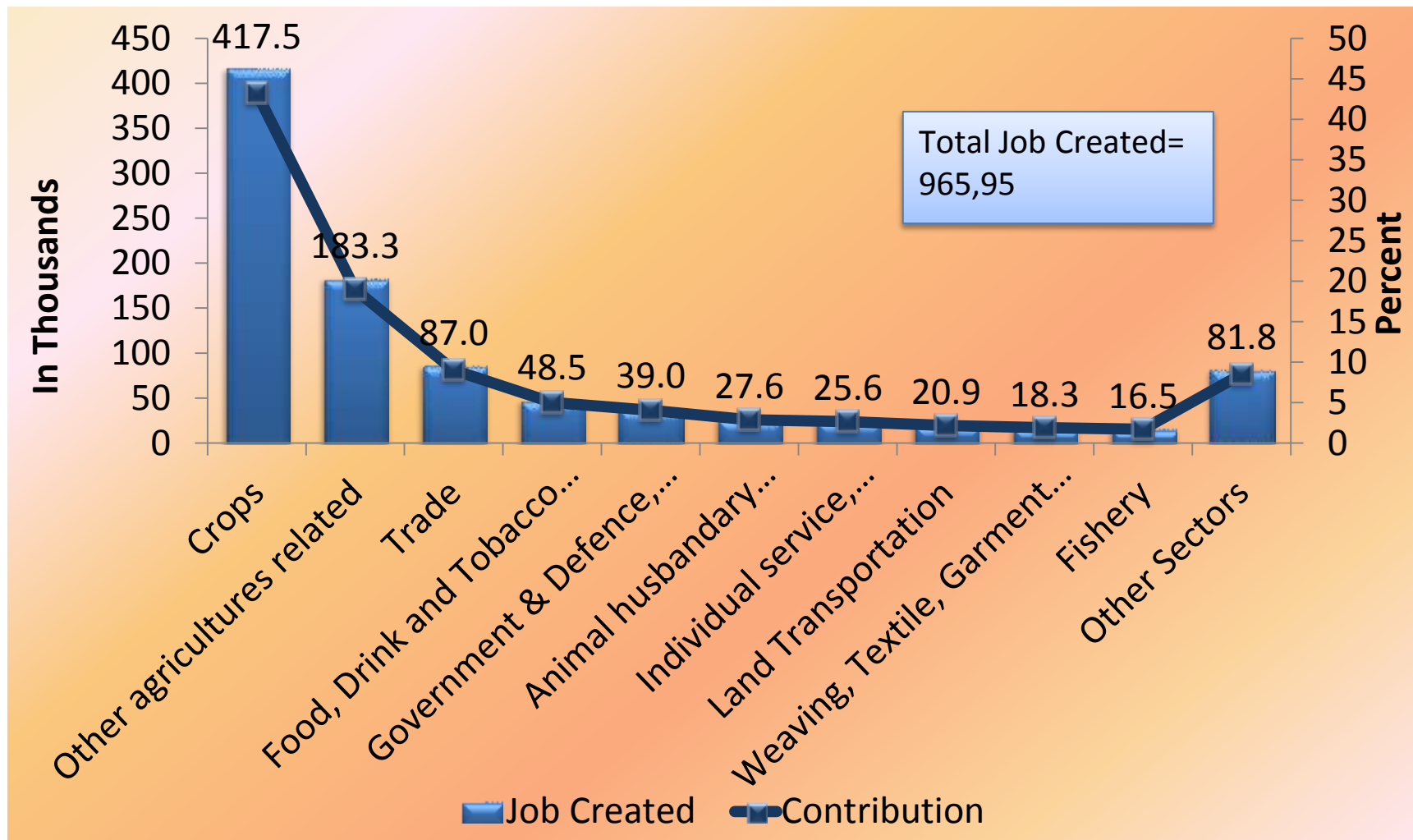
1. Rachmi Agustiyani (BPS)
2. Muhammad Zikri (BI)
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4. Priasto Aji (ADB)
5. Syafril Arsyad (KSPSI)
6. Eritas (APINDO)



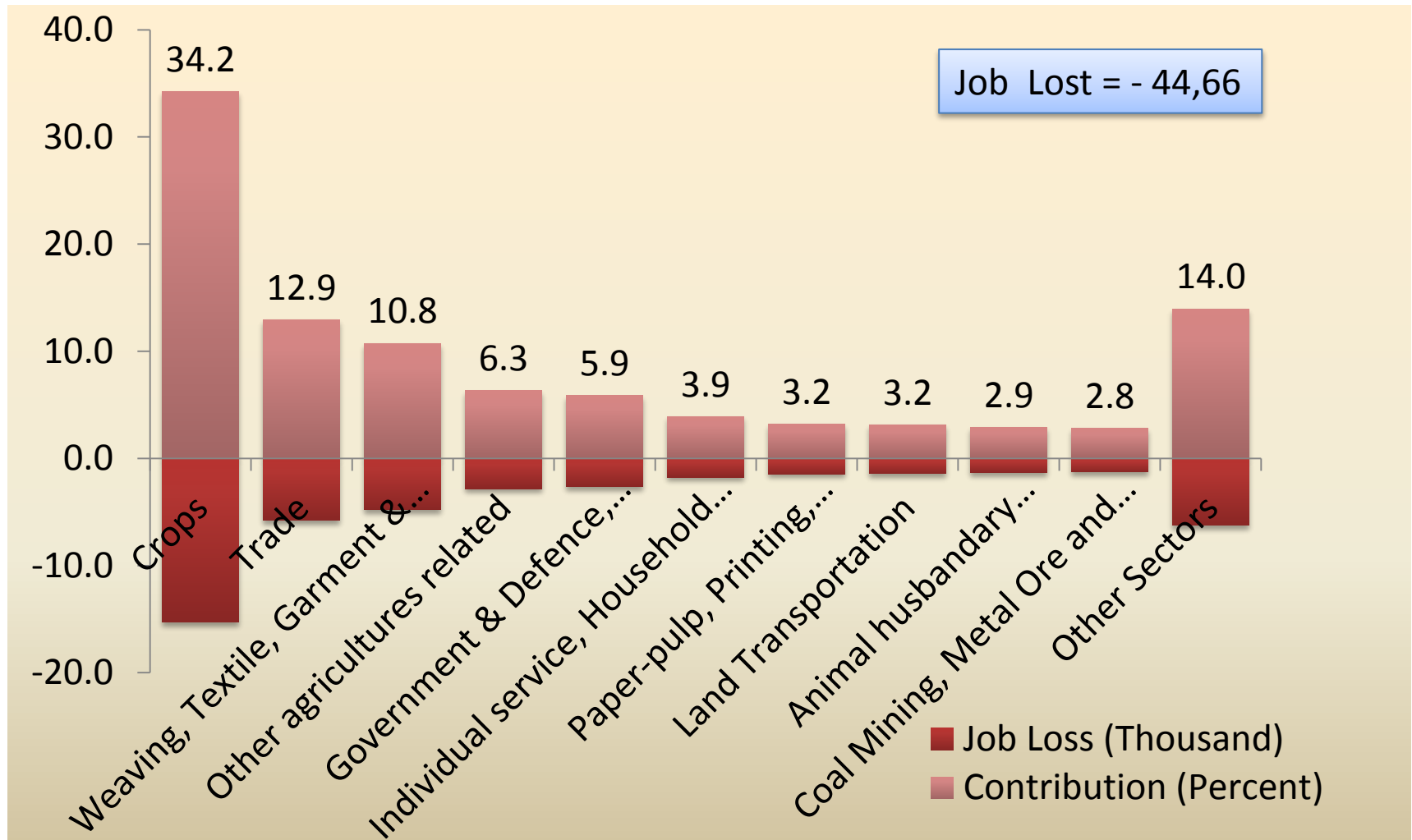
# Background

- Trade Agreement of Goods in the FTA between ASEAN – India (AIFTA) was signed in the 41<sup>st</sup> Economic Ministerial Meeting of ASEAN pada 13 Agustus 2009 in Bangkok.
- Indonesia will enjoy the elimination of entry tariff of 70.14 percent of the India tariff lines (3.666 tariff lines) in 2013 and increase to 79.35 percent tariff lines (4.145 *tariff lines*) in 2016.
- 94.75 percent of the Indonesian exports to India (US\$ 2,6 billion) will enjoy the promotion of market access in the next 10 years, including the CPO and RPO, which are the main Indonesia's commodities to India's market.

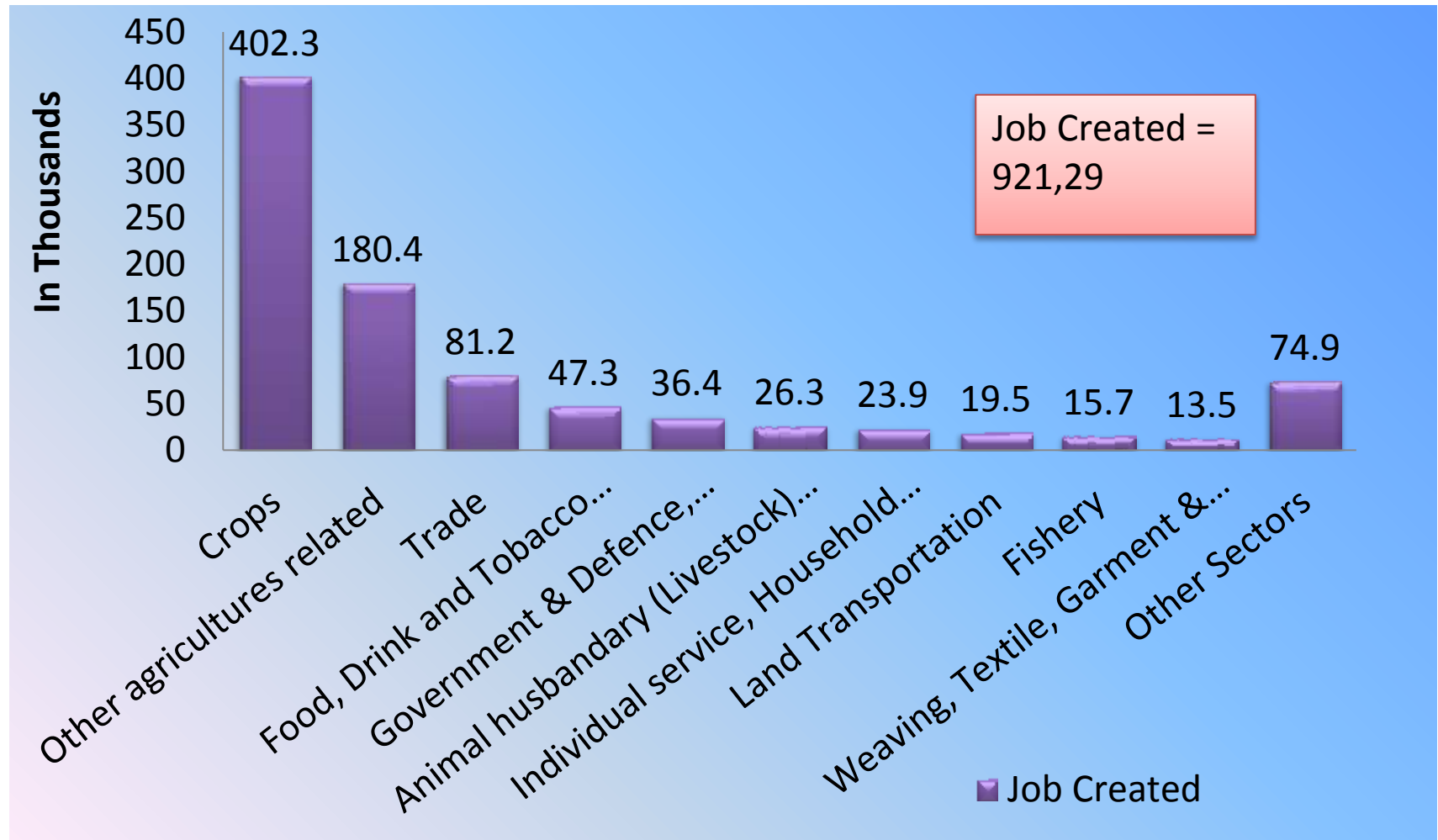
# Impact of Exports Promotion on Employment



# Impact of Imports Promotion on Employment



# Impact of Net Trade on Employment in Indonesia



# Recommendation

- Export commodities such as palm oil have low value added. There should be a feasibility discussion with Indian or other potential investors to build processing industry to process CCO/CPO in Indonesia that generates higher value added.
- Sectors that are estimated to be negatively affected should be assisted for example through the efforts of market diversification or remains to exist in such sectors but involve in *global production network* jointly with India.
- Take earlier actions to anticipate Non-Tariff barriers, for example related to green products, product quality certification and others.



**KEMENTERIAN PERDAGANGAN  
REPUBLIK INDONESIA**

# Employment Effects of Trade Liberalization

**Case Study:** Trade Partnership between Indonesia-Australia  
Using *Social Accounting Matrix (SAM)*

# Introduction

## Background

1. International trade particularly exports and imports are believed to be the driving force in economic growth. Exports may generate substantial foreign exchange for one country's reserve.
2. Australia is one of Indonesia's trade partners and in the 9<sup>th</sup> rank of the main destination countries for Indonesia's exports.
3. On March 9, 2010 both Trade Ministers of the two countries agreed to expand the IAFTA to IA-CEPA (Indonesia-Australia *Comprehensive Economic Partnership Agreement*) which includes the elements of *economics, capacity building, trade and investments*.

## Objective

To assess the liberalization effects of FTA/CEPA between Indonesia and Australia on employment in Indonesia, through the elimination of entry tariff up to zero percent.



# Analysis Results

Based on the simulation results using SAM:

- Sectors that were able to take the advantages of the trade liberalization between Indonesia and Australia in terms of employment were Wood & Woods Products Industry up to 3,653 employment; Weaving, Textile, Garments and Leather up to 3,122; and Mining and Other Quarrying up to 344. The results indicated that these three sectors were able to optimize their export performance through the Australian policy to open its market for those sectors' products.
- Sectors that experienced negative impacts (job losses) because of this bilateral agreement between Indonesia and Australia were Other Agricultural sector which lost its employment up to 18,474, Agriculture up to 8,006, and Trade sector up to 4,234.
- In general, the policy on bilateral agreement between Indonesia and Australia has the job loss impact up to 33,242.

# Recommendation

- The government policy to continue this trade agreement between Indonesia and Australia should consider its employment effects in Indonesia in the future.
- There is a need for evaluation, study and in depth analysis regarding the Indonesia's potential facing FTA/CEPA with its partner (Australia).
- There is a need for socialization for the stakeholders regarding the plan for such an agreement.
- Making use regional cooperation to bridge towards a deepening bilateral cooperation, focusing more on mutual benefits in economic growth.
- Establish and enhance the capacity and quality of the related sector in the framework of promoting the *competitiveness* of such sector in global trade (participation in regional forum is important as the instrument for cooperation to gain the advantage of technological transfer and scientific knowledge).
- Conduct studies to explore opportunities for trade cooperation with other partners/non-traditional partners as "*diverting objective/target*" to expand the products potentials and to maintain Indonesia's services.