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Comments on Douglas Lippoldt Policies priorities for International Trade and Jobs

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- Excellent treatment by Douglas Lippoldt of the most recent evidence and policy discussions on trade, growth and employment
 - His edited book is a benchmark study on the topic: combination of case studies, time series and cross-sectional analysis
 - Timely at a turbulent time: worries about the future of world trade (and implications for the trade-employment relationship), especially in the north
 - In a long tradition of studies in this field (Krueger, Alan Winters and others)

- Main theme is clear: strong endorsement of an open trade regime for growth, and for employment
- Several sub-themes: I mention 5 in regard to the impact of trade on labor:
 1. *Outcomes of reform are conditional* – also need public investment and reforms to domestic economy and institutions
 2. *Adjustment process*: may be uncertain and harmful to sections of labor, but it is positive in the “long-run”

3. (Implicit) *Huge variation by DC and LDCs*: social security protection in DCs versus adjustment through the informal sector in LDCs
4. *Trade and Productivity*: much focus on the dynamic gains from trade, both from exports and imports
 - move to new jobs in the medium-term but not necessarily the short-term.

5. *Services*: Focus of reform is shifting from trade reform in goods to services

- especially a first world issue, but increasingly important in developing countries
- Opportune time to discuss these issues in Indonesia
 - Signs of rising inequality, and a sense that globalization is not meeting its promise in terms of better **jobs** or higher wages
 - “Low wage” policy focus
 - While economy is quite open, tendency towards greater regulation of trade

These comments

Fill in some of the gaps covered in the book

- *Some general comments/queries*: bearing in mind the circumstances of countries in East Asia, and especially Southeast Asia and Indonesia
- *Labor Market Adjustment*: Some thoughts on labor market adjustment issues in general
- *Indonesia*: A few specific points in regard to Indonesia, especially some of the current debates (*Pak Sugiyarto* deal with this in detail later in the conference)

I. GENERAL

Five points

1. The world has come a long way since the earlier studies
 - Much more open economies (lower tariff levels, fewer restrictions on FDI)
 - Issue is more about the costs of re-regulation or ‘backsliding’ on reform than the benefits of reform?

General

2. Many *conditions* for success of trade policy in relation to jobs are discussed
 - How to determine which ones should be priorities?
 - Different balance of priorities
 - among small versus larger economies
 - developed versus developing economies
 - within developing economies

GENERAL

3. *Little mention of Agriculture:* This is surprising – trade reform/regulation in agriculture a hot topic. Is it because:
- A developed country bias (<10% of employment versus 30-50% in LDCs)
 - A belief that most agriculturalists are self employed (what about plantation agriculture, landless laborers on small farms?)

4. *A little bit too upbeat* about the benefits of trade?

- Its hard to capture the nuances of a book in a short power-point presentation
- The book does give a lot of detailed attention to the time profile of adjustment
 - especially the short-term costs of import penetration

General

5. *Political economy of trade policy*: even if convinced of benefits, how do governments deal with these issues in democratic polities, esp. in LDCs, where:
- Organized labor small, its political voice is strong, and it often stands to lose from opening up, at least in the short-term
 - Unorganized labor very large, for whom the benefits and costs are uncertain
 - Civil society tends to back organized labor

II. LABOR AND EMPLOYMENT ISSUES

- Labor market costs of opening up (or closing down) very different in the DCs than in LDCs?
 - Open unemployment big issue in DCs for welfare, but not in most LDCs
 - Informal sector earnings a much bigger issue in relation to poverty impacts of labor market adjustments
 - Labor laws often extensive but compliance rates low in LDCs, especially among SMEs
 - Dual labor markets even in formal sector

LABOR AND EMPLOYMENT ISSUES

- The quality of jobs
 - The quality of jobs no worse and often better through trade and especially trade with FDI (Flannagan and Khor)
 - Seems well established but..
 - Can have strong negative impact of tight labor regulations on the quality of jobs, especially in tradable goods industries

- Job security: greater insecurity/churning in tradable goods markets?
 - The study does not find this, though there is some evidence of it
 - Dilemma in some countries where goal of many job seekers is a secure public sector job
 - Second best solution is a secure private sector job
 - Particularly an issue where social security not well established

III. INDONESIA

Three issues are of interest (dealt with in detail by Pak Sugiyarto)

1. Despite a quite open trade policy, manufacturing workers do poorly in first decade of 2000s (jobs and wages)

- Other conditions/policies were not favorable (infrastructure, uncertainty)
- Conclusion that the government should set wages at a ‘decent’ level: large MW hikes
 - negative impact on trade (reverse causality)?

2. Trade restrictions in agriculture (quotas, NTBs) and mining (mandated domestic processing)

- Employment impacts may be positive in short-term
- Losses to consumers or to business, but not major in terms of employment?

3. Inequality an issue of growing concern

- Many causes, but one is suspicion of globalization effects and ‘cheap labor’ policy
- Fuel labor activism, with civil society support

THANK YOU/ TERIMA KASIH