

Bad Times, Bad Policy?

Trade and Investment in Indonesia

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Mohammad Sadli (1922-2008).
Member of the 'Berkeley Mafia',
Chair of BKPM, Minister of Man-
power, Minister for Mines, UI
economist

*Bad times may produce good eco-
nomic policies, and good times
frequently the reverse (Hill &
Thee 2004)*

Indonesia's pattern of reform has been consistent with the Sadli's Law

- ▶ Command socialism of the 1950s and 1960s replaced by economic reform of the New Order. Most notable: 1967 Investment Law
- ▶ Oil price collapse in the early 1980s triggered a series of reform packages incl. trade cost cut, capital market and banking sector development, custom procedure improvement, relaxed investment and ownership restrictions
- ▶ AFC in the late 1990s followed by a series of unilateral liberalisation

Sadli's Law broke down

But then protectionism re-emerged in the 2000s

- ▶ Interest in free trade post AFC was short-lived
- ▶ The GFC of 2008-09 did not produce good policy (yet?)
- ▶ Jokowi: bad times and bad policy (thus far?)

- ▶ Recent laws: 2009 Mineral & Coal Mining Law, 2010 Horticulture Law, 2012 Food Law, 2013 Farmers Law, 2014 Industry Law, 2014 Trade Law, 2014 Standardisation Law
 - ▶ Mostly to restrict trade, stabilise domestic prices, and foster linkages
 - ▶ Often times contradicting each other, or in conflict with local by-laws
- ▶ Non-tariff measures
 - ▶ License and permit requirements
 - ▶ Pre-shipment inspections
 - ▶ New labelling requirements
 - ▶ Local content requirements
 - ▶ Export restrictions

MFN tariffs, 1995-2013

Year	Simple Avg. (%)	Weighted Avg. (%)	Std. Deviation
1995	15.34	10.89	14.89
1996	12.35	7.73	16.70
1999	11.19	6.05	16.61
2000	8.43	5.16	11.91
2001	6.89	4.31	11.29
2002	6.90	5.79	11.14
2003	6.90	5.22	11.13
2004	6.95	6.09	15.41
2005	6.95	6.07	15.41
2006	6.95	6.07	15.41
2007	9.87	4.47	7.48
2008	9.58	4.07	7.39
2009	9.57	3.93	7.42
2010	9.61	4.09	7.44
2007	16.48	10.42	17.10
2008	12.26	6.29	16.07
2009	12.37	7.70	15.62
2007	6.91	5.01	12.62
2009	6.80	4.96	12.42
2010	6.70	5.19	7.00
2011	7.41	4.75	11.40
2013	7.23	4.67	11.40

Source: WITS Data

Trade war

'Harmful' trade measures

Number of harmful measures implemented by specified jurisdiction, by type of measure	Total Measures				
	Indonesia	China	Malaysia	Thailand	India
Bail out / state aid measure	6	6	1	1	19
Competitive devaluation	0	0	0	0	0
Consumption subsidy	0	1	0	0	0
Export subsidy	3	11	2	1	25
Export taxes or restriction	18	10	1	2	14
Import ban	6	3	1	0	6
Import subsidy	0	0	1	1	2
Intellectual property protection	0	2	0	0	0
Investment measure	13	17	4	3	12
Local content requirement	15	9	4	0	107
Migration measure	2	1	2	1	2
Non tariff barrier (not otherwise specified)	25	9	3	1	12
Other service sector measure	4	3	0	0	1
Public procurement	9	7	0	0	13
Quota (including tariff rate quotas)	5	7	0	0	2
Sanitary and phytosanitary measure	4	0	0	0	0
State trading enterprise	0	0	0	0	0
State-controlled company	2	1	0	0	1
Sub-national government measure	0	2	0	0	1
Tariff measure	12	15	3	1	37
Technical barrier to trade	3	1	0	0	0
Trade defence measure (anti-dumping, countervailing duties, safeguard)	17	45	7	14	135
Trade finance	1	1	2	0	95
Total	115	131	18	22	356

Source: GTA, accessed 13 May 2015

How restrictive?

Trade restrictions implemented by Indonesia since 2009

Number of ambers	37
Number of reds	158
Number of tariff lines affected by reds	746
Number of sectors affected by reds	45
Number of trading partners affected by reds	181

Source: GTA, accessed 13 May 2015

Against whom?

Top affected partners

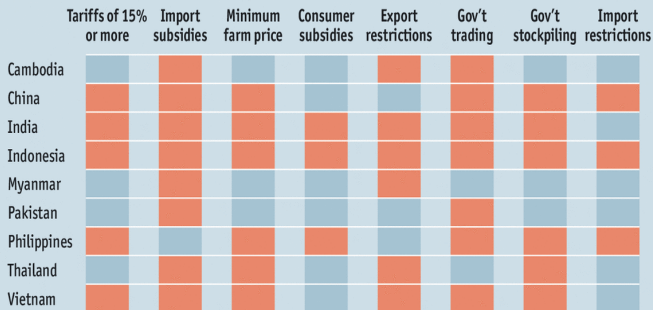
China	68
US	60
Japan	54
Australia	53
Germany	50

Source: GTA, accessed 13 May 2015

An example: distortion in rice market

Cereal offenders

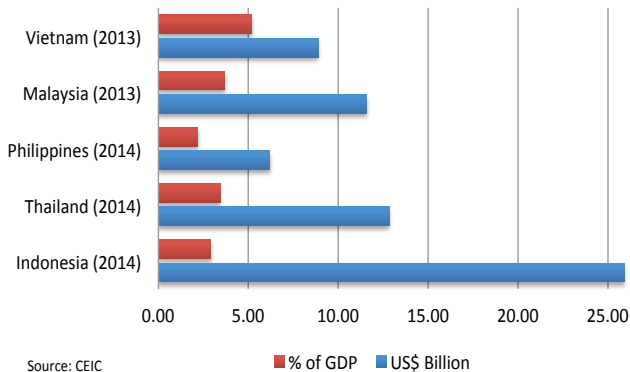
■ Policies affecting rice prices, 2007–13



Source: USITC

Economist.com

FDI Inflows



Which sector to invest?

Sector Openness

	Indonesia	Malaysia	Thailand	Philippines	Vietnam
Agriculture and Forestry	98%	50%	49%	40%	76%
Mining and Oil & Gas	98%	60%	75%	40%	76%
Manufacturing	98%	100%	100%	100%	100%
Electricity	95%	39%	100%	40%	60%
Waste management and water supply	100%	100%	75%	40%	76%
Transportation	49%	83%	49%	50%	49%
Tourism	100%	100%	49%	100%	100%
Media	0%	100%	35%	0%	0%
Telecom	57%	100%	49%	40%	53%
Financial Services	86%	70%	75%	87%	83%
Accounting	100%	100%	49%	0%	100%
Education	0%	100%	100%	40%	100%
<i>Aggregate</i>	73%	79%	68%	50%	66%

Source: Investing Across Sectors, World Bank 2012

Import content of exports

Foreign Content in Exports

		% Contr. to Net		
	Source	% Share (Total)	% Share (Mnf)	Exports of Merch
Indonesia (1995)	oc	12.89		
Indonesia (2000)	oc	19.42	23.56	78.54
Indonesia (2005)	oc	16.77	20.99	69.87
Indonesia (2010)	oc	13.24	17.52	67.64
Taiwan (1996)	oc	36.21		
Taiwan (2001)	oc	39.57		
Taiwan (2006)	oc	49.58		
China (2007)	Koopman et al. 2012	39.40		
China (2007)	Ma et al. 2015	40.82		
Vietnam (2007)	Riedel & Pham 2014	39.50		

Note: oc: own calculation using official input-output tables

Why protectionism re-emerges?

The political economy of trade protectionism

- ▶ Exchange rate protectionism, Olsonian collective action
- ▶ Drop in competitiveness
- ▶ The 'IMF trauma'
- ▶ Jokowi style
- ▶ Demonstration/neighborhood effect

Will this trend of protectionism continue?

- ▶ Likely, if the RPJM is a credible targets set
- ▶ Hopefully not, if the September/October/November deregulation packages are well implemented

Economic Reform Package: reason for optimism?

Too early to tell, but there are hopes:

- ▶ Many verification no longer required (e.g. for rice, wood, oil, gas)
- ▶ No need for other ministry's recommendation (e.g. sugar, salt, iron & ore, rice for industry)
- ▶ Multiple documents streamlined (e.g. textile, garment, pearls)



From **Gobel** to **Lembong** Is this a good thing? Too early to tell. But, Lembong: “Protectionist policies always backfire”
Hopefully Busch (2015) is right: “Good policy sometimes need a bit of bad policy first”

Thanks