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## **Trade, Poverty, and Income Distribution: the Indonesian Experience**

**Richard Barichello, Arianto Patunru, and Richard Schwindt**

*Invited Paper prepared for presentation at the International Agricultural Trade Research Consortium's (IATRC's) 2018 Annual Meeting: Interlinkages among Global Value Chains, Trade, and Transformation of the AgriFood Industry, July 25-27, 2018, Whistler, BC, Canada.*

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# TRADE, POVERTY AND INCOME DISTRIBUTION: THE INDONESIAN EXPERIENCE

Rick Barichello (UBC), Arianto Patunru  
(ANU) and Richard Schwindt (SFU)

*Presentation to International Agricultural Trade Research Consortium Annual  
Meeting*

*Whistler, BC July 27 2018*

# Larger Project: Relation between globalization (trade) and human rights

- Major issue over past few decades is rapid increase in globalization, an important element of which is trade
- But there are uncertainties and concerns that expanded globalization is having negative effects on certain dimensions of human rights
- Purpose of this project: to explore these issues across countries and different human rights
- Each country study tied to particular human right
- Contributing researchers were relatively interdisciplinary, covering lawyers, economists, political scientists, regional planners, demographers and specific disciplines such as health

# Expanded Trade vs. Poverty, Inequality

- Theme of *this* volume: how increased globalization, particularly expanded trade, affects two elements of human rights: *Poverty*, and *Income inequality*
- Our country focus is Indonesia
- All papers have an empirical component, whether it is traditional economic data or institutional data such as on land property rights
- Although the project has a human rights focus, this volume's papers are mostly from economists
- 9 papers in this volume, aside from Introduction and Conclusions chapters
- Listing of chapter titles:

# Table of Contents

<i>Title</i>	<i>Author(s)</i>
<i>Economic globalization and inequality: Causes, Consequences and Cures</i>	James W Dean and Colin McLean (SFU)
<i>The impact of trade expansion on poverty and income inequality in Indonesia</i>	Teguh Dartanto, Yusuf Sofiyandi and Nia Kurnia Sholihah (Universitas Indonesia)
<i>A Child's Growth is a Nation's Growth: Children's Wellbeing and Inequality in Indonesia</i>	Santi Kusumaningrum (Columbia University) and Arianto Patunru (ANU)
<i>Does Globalization Induce Income Inequality: Evidence on Trade Openness and FDI in Indonesia?</i>	Budi Resosudarmo and Yessi Vadila (ANU)
<i>Reducing Rural Poverty through Trade? Evidence from Indonesia</i>	Richard Barichello and Faisal Harahap (UBC)
<i>Coffee Eco-Certification: New Challenges for Farmers' Welfare</i>	Bustanul Arifin, University of Lampung (UNILA), Indonesia
<i>Is Greater Openness to Trade Good: What are the effects on Poverty and Income Inequality?</i>	Arianto A. Patunru (ANU)
<i>Between Human Rights and the Market: A Case Study on Visual Disability in Indonesia</i>	Evi Nurvidya Arifin and Aris Ananta, Center for Aging, Universitas Indonesia
<i>Urban Property Rights and the Right to the City: A View from Jakarta</i>	Michael Leaf (UBC)

# Papers in this volume:

- Largely empirical studies showing directly the impacts of economic globalization, focused on trade, on different measures of poverty and income distribution; some attention as well to FDI, which is now often included in trade agreements
- Seven papers include econometric estimation of models that are grounded in literature, using established data sets; One paper a case study; data sets relatively aggregate, national or provincial
- One on property rights, application of global standards to Indonesia
- Emphasis in these papers is on actual results, relationships across variables, and causes of inequality, poverty, wage rates, not primarily examining how various institutions or policies work
- Virtually all papers include substantial attention to policy implications and options, even if those policies do not enter directly in the empirical work

# Lessons for others 1: Is Indonesia unique?

- A 'good' level of growth: 1983 to 2013, average GDP/cap growth=4.0%/yr (incl -13% in 1998)
- Poverty has declined impressively, despite a large increase in 1997-1998 (Asian Financial Crisis)
  - Headcount Pov at national poverty line: 1980=28.6%, 2012=11.7%
- Inequality started relatively low (Gini=0.30), but it has slowly risen, and more quickly since ~2008 (now ~0.41)
- Trade and Poverty Reduction performance over past 30 years better than India, not as good as China



# Lessons for others 2

- On average no crisis (aside from AFC), 'good' progress, no political demand for rights-based development like India
- Democracy has flourished, trade policy increasingly tends to protectionism, especially in agriculture, resources, and 'sensitive' products; general political goal to reduce inequality ("share the fruits of economic development") for at least 40 years, somewhat unique
- Open and flexible labour market; population density has allowed generally competitive business environment, notwithstanding some monopolies
- State institutions quite pervasive, their performance varied, but results on poverty relatively good, arguably due to flexible labor markets and high rates of migration

# Overview of Results

- Key result 1: poverty tends to be reduced through increased trade (not by isolating markets), or trade helps raise incomes of low income persons
  - But importantly, case studies sometimes identify exceptions
- Key result 2: effects of increased trade on income inequality are ambiguous
  - In general increased trade helps raise low incomes, but it also increases incomes at the top, leaving overall effect on inequality uncertain

# Selected details: Pro-poor trade restrictions

- Two papers in the volume focus on trade restrictions aimed at helping the poor
- Over an extended period, Indonesia has been restricting imports of a food staple – rice
- The policy did not help small scale rice farmers and in the case of the smallest farmers it actually hurt them
- The policy obviously raised the price of rice to the detriment of consumers, most damaging to poor consumers (especially with a staple food like rice that is widely consumed by the poor)

# Are these results a surprise?

- Not really: but we offer strong empirical support
- Positive effects of trade liberalization in developing countries on poverty reduction are widely predicted on the basis of economic theory and many empirical studies
  - But there are exceptions for specific industries or for specific groups of workers who cannot compete with foreign suppliers or whose jobs are lost as firms restructure to compete better with imports
- Our results for income inequality are consistent with other research; it is difficult to predict how increased trade affects income distribution

# Policy Recommendations

# Compensation/Support for Adjustment

More open trade offers net advantages to a country, but it comes with side effects, meaning there are often both winners and losers

1. *Policy makers should seriously the need to provide adjustment assistance or support to those firms or to individuals that lose jobs*

- Includes re-training assistance, direct income transfers or specific unemployment assistance
- Assistance should be designed carefully to minimize incentive for recipients not to work or not move to other sectors (i.e., support programs should be incentive-compatible)

# Better Information for assessing trade policy

More specific to our poverty focus is lesson #2:

2. *Evaluate the effects of lower trade barriers specifically on poor populations or regions.*

- This will provide much help in *targeting* public assistance on those persons or regions
- To do this requires better and detailed data on not only who is hurt by a trade policy but how much specific poorer populations are hurt

# Increasing Competitiveness

- Key cause of sector losing from globalization can be its low international competitiveness
  - For those sectors with the potential to be able to compete internationally, government support can
3. *Increase the competitiveness of those sectors that are not competitive and at risk of being hurt*
- It is a form of risk prevention or ex ante preparation for freer trade: *enact policies and programs to enhance firms and industries' ability to compete internationally*
  - This can take many forms, including investments in infrastructure, research, and skills training



# Policies to Reduce Income Inequality

- It is challenging to find trade policies that clearly reduce inequality, as our empirical results show; but our work highlights two policies that could help
  4. *Reduce trade barriers on food and agriculture products like rice (Indonesia) to lower prices and directly help poor consumers*
    - Because these trade barriers typically benefit the well-to-do, this will have the two-fold benefit of simultaneously helping reduce poverty *and* income inequality
  5. *Encourage Foreign Direct Investment (FDI) in Indonesia*
    - Our work found that *FDI* reduced income inequality in Indonesia, possibly due to guidelines that encouraged FDI to locate in poorer areas

# Nuances (unevenness) of Globalization

- Case 1: With coffee certification, globalization via trade in organic coffee, has not helped low income farmers
  - Case 2: For visual disabilities, globalized access to treatments for visual problems (+) is contrasted with global growth of digitization that has hurt visually disabled persons, especially the poor
  - Case 3: In adoption of globally accepted property rights, conflict has arisen with some traditional urban property rights that are more communal and poor-friendly, presenting a challenge between this form of globalization and poverty reduction
6. *Policy makers must be sensitive to these uneven effects of trade liberalization or globalization*

# To tie in to policy, dissemination a priority

- Active dissemination of our results through
  - Academic seminars and conferences in the US and Canada, but also in Beijing, Bangkok, Singapore, Jakarta (book launch), Canberra, and Germany, with audiences of students, faculty members and the general public, up to 400 persons
  - Presentations have also been made directly to policy makers in Indonesia at the Ministries of Trade, Agriculture, and Social Affairs
  - Op-eds have been published in two prominent Indonesian newspapers (Kompas, The Jakarta Post), as well as the East Asia Forum