

Anti-globalisation, poverty and inequality in Indonesia

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Introduction 1 – our question

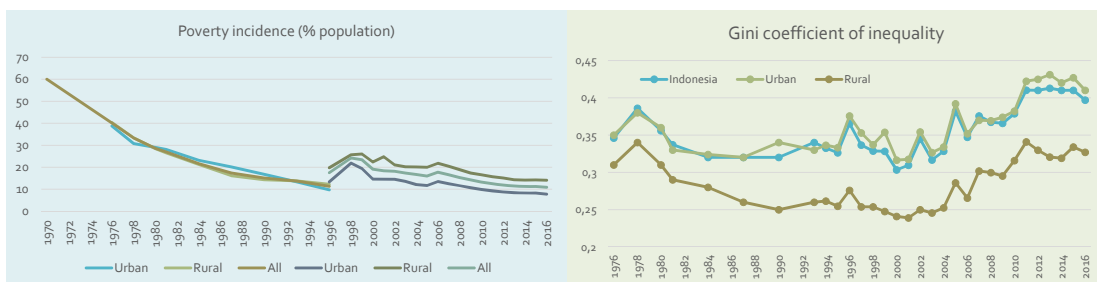
1. Since the 1997-99 Asian Financial Crisis (AFC), the rate of poverty reduction in Indonesia has slowed. From an annual reduction of **1.44** % of the total population between 1976 and 1996, the rate slowed to **0.53** % per year between 2000 and 2015. That is, the post-crisis rate of poverty reduction is only **37** % of the pre-crisis rate, whereas the post-crisis rate of GDP growth per person has been 89 % of the pre-crisis rate.
2. Following the crisis, economic inequality increased dramatically. The Gini index of inequality increased from 0.303 in 2000 to 0.41 in 2015, one of the largest increases ever recorded for any country.
3. Protectionism also increased, both at the global level and within Indonesia. In this presentation we focus on the rise in trade protectionism between 2008 and 2015.
4. To what extent, if any, does point 3 explain points 1 and 2?

Introduction 2 – our answer

1. Reminder: the post-crisis vs. pre-crisis slowdown in the rate of poverty reduction is $1.44 - 0.53 = 0.91$ percentage points per year.
2. We estimate that since 2008 increased protectionism at the global level may have reduced the annual rate of poverty reduction within Indonesia by **0.018** percentage points.
3. Increased protection within Indonesia between 2008 and 2015 reduced the annual rate of poverty reduction by an estimated **0.010** percentage points.
4. Implication: the poverty effects were negative but small.
5. Protectionism also increased inequality, but the effects were even smaller.
6. Anti-Globalisation had harmful effects on both poverty reduction and inequality, but it was not the major cause of either the slowdown in poverty reduction or increased inequality.

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In Indonesia, poverty reduction has slowed and inequality has increased to an unprecedented level.



	1976	1996	Annual change	2000	2008	Annual change	2008	2016	Annual change
Poverty	40.100	11.300	-1.440	19.100	15.412	-0.461	15.412	10.860	-0.569
Inequality	0.346	0.365	0.001	0.303	0.367	0.008	0.367	0.397	0.004

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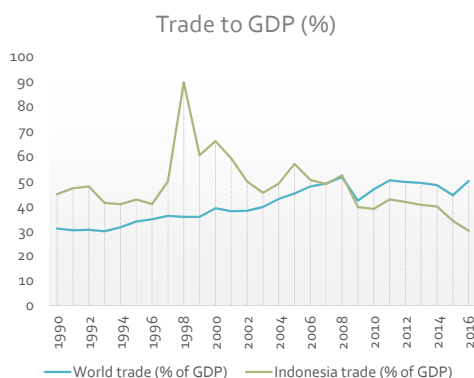
After the 2008 global financial crisis, world trade growth slowed. World GDP growth slowed too, but not as much.



Source: World Trade Organisation

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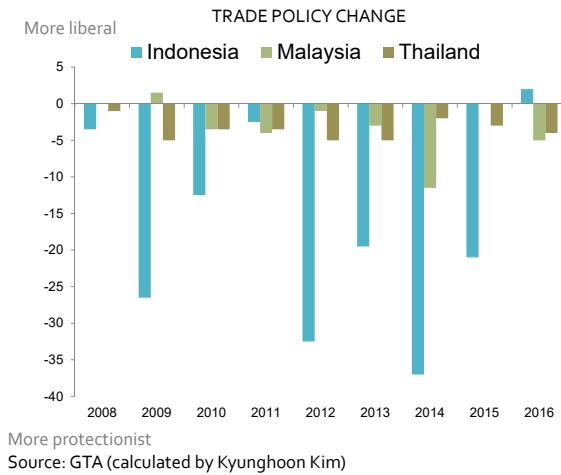
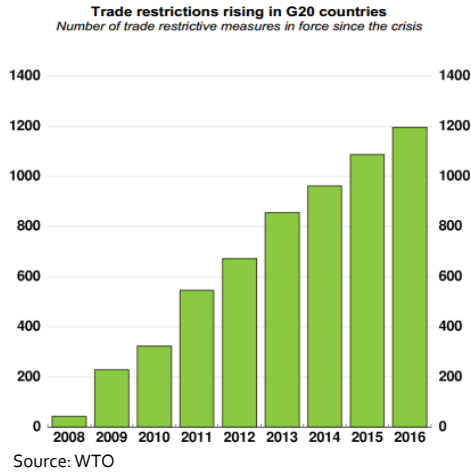
The world trade to GDP ratio stopped rising after 2008. Indonesia's trade/GDP ratio has fallen absolutely.



Source: World Bank WDI

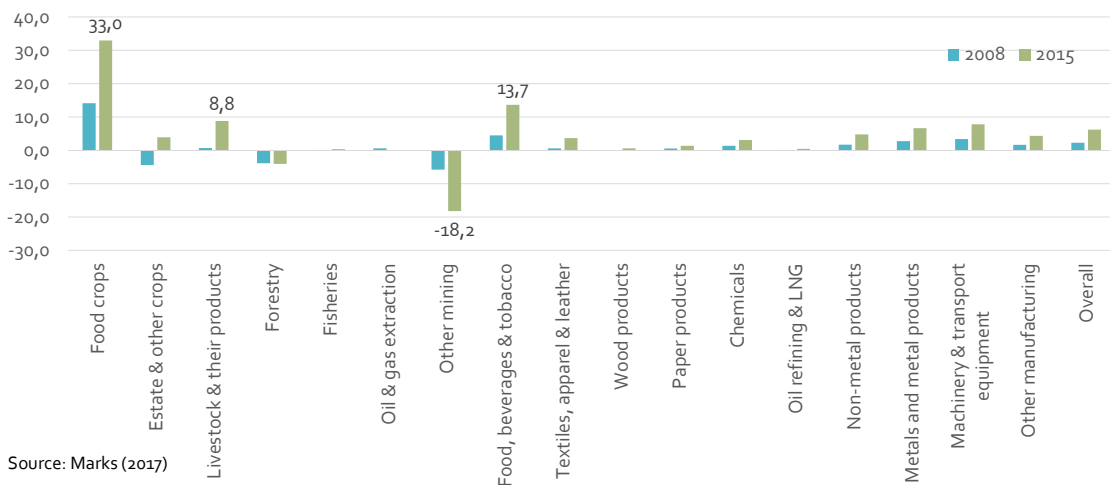
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Global trade restriction has increased since 2008, including Indonesia



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Indonesia's nominal rate of protection (NRP) has increased since 2008



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How *globalisation-reversal* may affect poverty and inequality: A modeling perspective

- Changes in protection policy are known to have powerful effects on poverty and inequality. To what extent, if any, can Indonesia's poverty-inequality story be explained by changes in trade policy?
- Changes other countries' protection alters the international prices for commodities and traded inputs and this in turn affects the domestic prices faced by both producers and consumers within Indonesia.
- Changes in Indonesia's protection policies affect Indonesian households by changing both their incomes and the prices they face for consumer goods.
- We analyse these complex effects using INDONESIA-E3, a computable general equilibrium model of the Indonesian economy with disaggregated households, enabling detailed calculation of the poverty and inequality impact of policy changes and external shocks (Yusuf, 2008).
- The essence of the analysis is the comparison between the welfare of households under the existing policies and what their welfare would be under a hypothetical alternative set of policies – the counterfactual.

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Simulating the impact of *globalisation-reversal* on poverty and inequality: the INDONESIA-E3 model

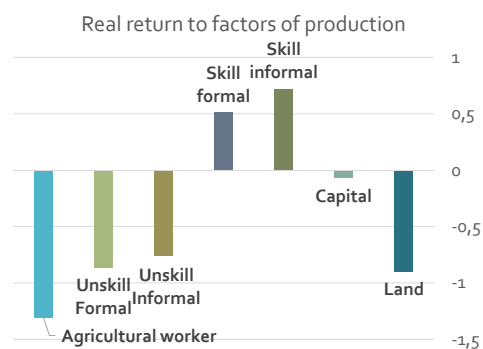
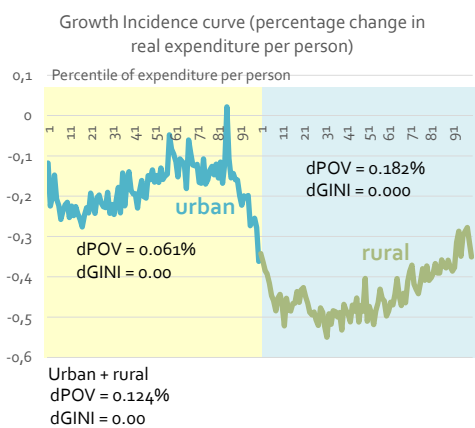
Scenarios:

1. ***The world's globalisation-reversal.*** Using the World Bank's estimated levels of global protection, we simulate the effects on Indonesian households of a 20% increase in all rates of protection in all countries, except Indonesia.
2. ***Indonesia's own globalization-reversal:*** We simulate the effects on Indonesian households of the observed increase in trade protection between 2008 and 2015 (based on Marks, 2017). We focus on **food crops, livestock, manufactured food** and **minerals**.

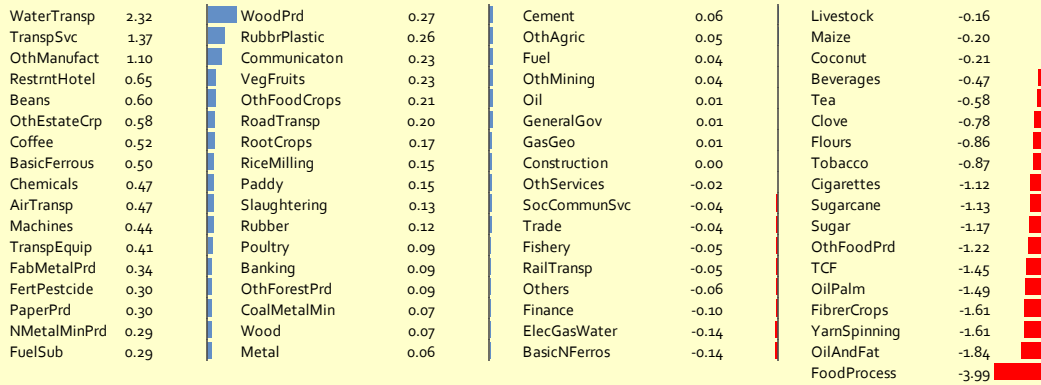
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How the world's globalisation-reversal affects Indonesia

The world's globalisation-reversal hurts Indonesian agriculture and unskilled labor. It increases poverty, especially rural poverty, but does not change inequality.



The world's globalisation-reversal harms many Indonesian agriculture-based exporting sectors



How Indonesia's own globalisation-reversal affects Indonesia

Distributional effect of a shock or policy change:

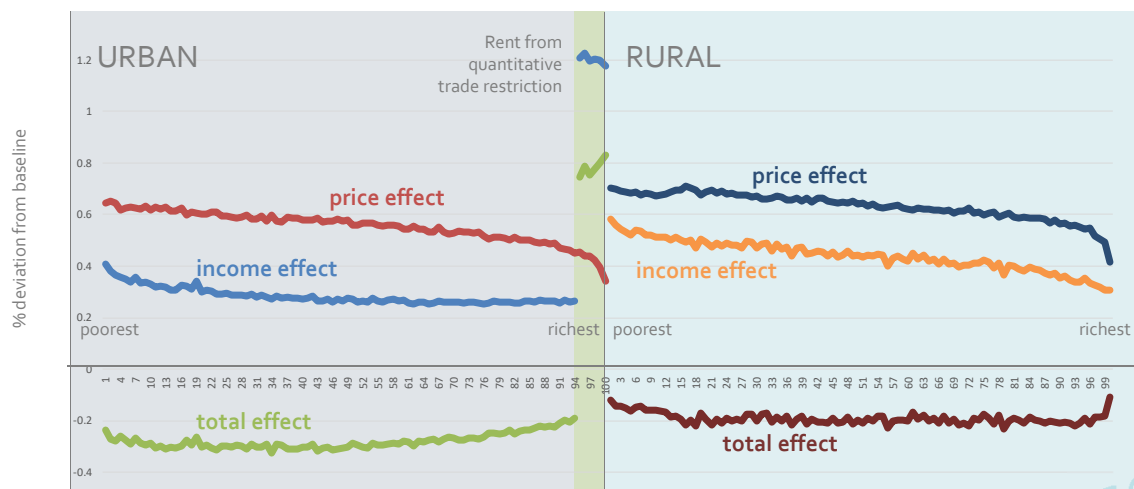
For an individual household:

Total Effect (Real expenditure effect) = Income Effect – Price Effect

- The *Income Effect* measures, for each household, how a shock affects income from the ownership of factors of production (labour, capital and land).
- The *Price Effect* measures the impact on the household's cost of living.

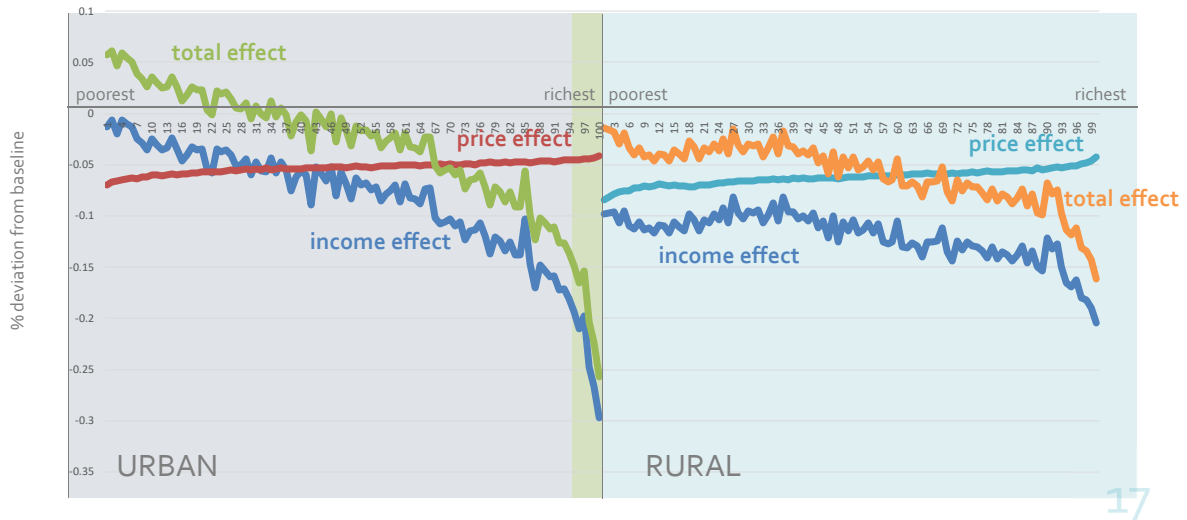
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Distributional effect of Indonesia's rising protectionism: (imported) food products

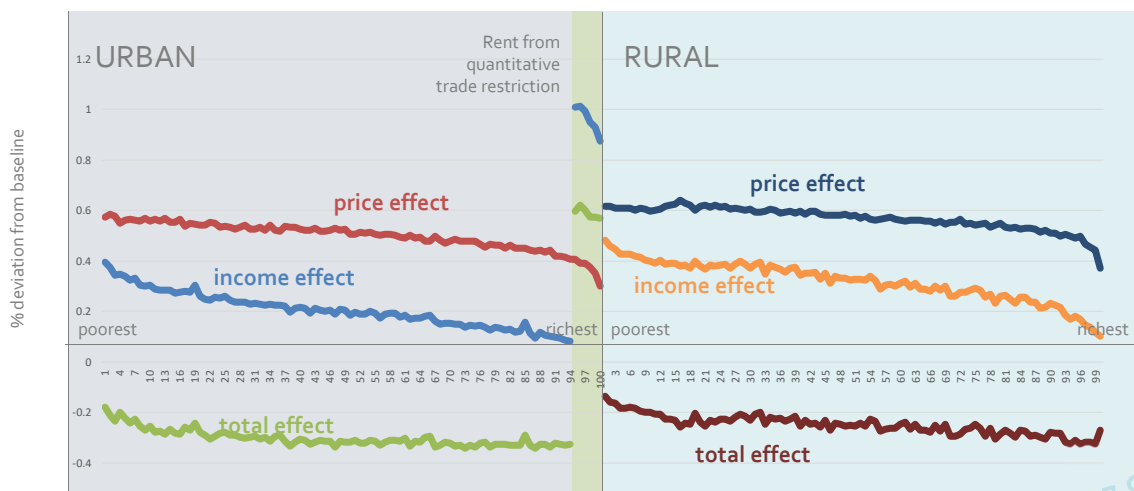


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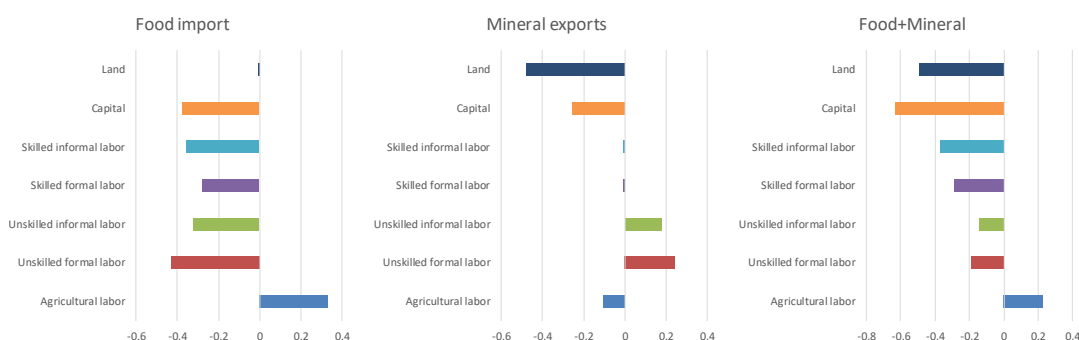
Distributional effect of Indonesia's rising protectionism: (exported) minerals



Distributional effect of Indonesia's rising protectionism: food + mineral products



Indonesia's globalisation-reversal has diverse effects on real returns to factors of production



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Summary of the impacts on poverty and inequality

	Poverty			Gini			Top10/Bottom10 (Decile dispersion)		Top10/Bottom40 (Palma Ratio)	
	Urban	Rural	All	Urban	Rural	All	Urban	Rural	Urban	Rural
Ex-ante	11.650	18.930	15.412	0.369	0.277	0.371	7.620	3.893	1.276	0.803
SIM1-Food	11.729	18.992	15.482	0.370	0.277	0.372	7.681	3.892	1.288	0.803
Change	0.079	0.062	0.070	0.001	0.000	0.001	0.062	-0.001	0.012	0.000
SIM2-Mineral	11.643	18.942	15.415	0.368	0.277	0.371	7.602	3.889	1.275	0.802
Change	-0.007	0.012	0.003	0.000	0.000	0.000	-0.018	-0.004	-0.002	-0.001
SIM3-Food+Minerals	11.722	19.004	15.485	0.370	0.277	0.371	7.663	3.888	1.285	0.802
Change	0.072	0.074	0.073	0.001	0.000	0.001	0.044	-0.005	0.009	-0.001

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Conclusions -1

Since the 1997–98 Asian financial crisis, the rate of poverty reduction in Indonesia has slowed and inequality has increased

- From a reduction of 1.44 per cent of the total population per year between 1976 and 1996, the rate of poverty reduction slowed to 0.53 per cent per year between 2000 and 2016.
- Therefore, the post-crisis rate of poverty reduction was only 37 per cent of the pre-crisis rate, whereas the post-crisis rate of GDP growth per person was 89 per cent of the pre-crisis rate. Following the crisis, economic inequality increased dramatically.
- The Gini index of inequality increased from 0.303 in 2000 to 0.41 in 2015, one of the largest increases ever recorded for any country.

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Conclusions -2

At the same time, protectionism also increased, both globally and within Indonesia.

The objective of this study was to estimate the extent to which protectionism, both at the global level and within Indonesia, explains the observed slowdown in poverty reduction and rise in inequality.

We did this using the INDONESIA-E3 model, a general equilibrium model of the Indonesian economy that enables detailed calculation of the poverty and inequality effects of policy changes and external shocks.

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Conclusions -3

The difference between the pre- and post-crisis rates of poverty reduction was $1.44 - 0.53 = 0.91$ percentage points per year.

Our findings are:

- Increased protectionism at the global level since 2008 reduced the annual rate of poverty reduction in Indonesia by 0.018 percentage points.
- Increased protectionism within Indonesia between 2008 and 2015 reduced the annual rate of poverty reduction by 0.010 percentage points.
- Therefore, protectionism increased poverty, but this effect was small.
- Increased protectionism from 2008 to 2015 also increased inequality, but the effect was smaller still.

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Conclusions -4

Anti-globalisation had harmful effects for both poverty reduction and inequality within Indonesia.

But that was not the major cause of either the slowdown in poverty reduction or the rise in inequality.

The main causes of these changes are important issues for ongoing research.

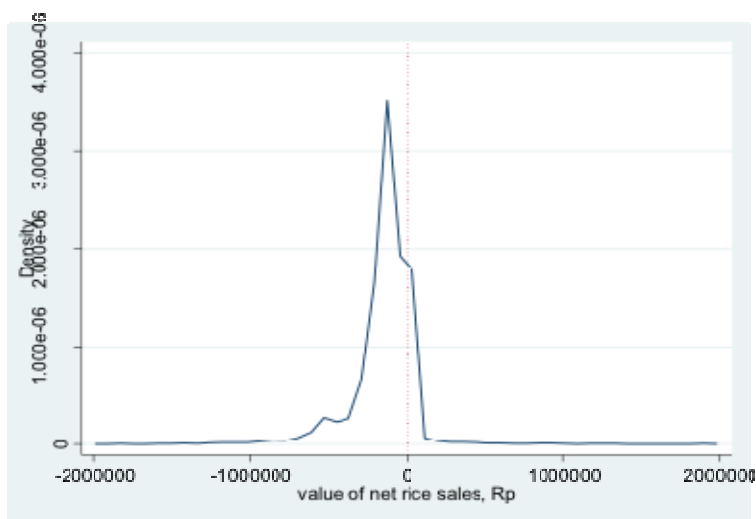
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Thank you

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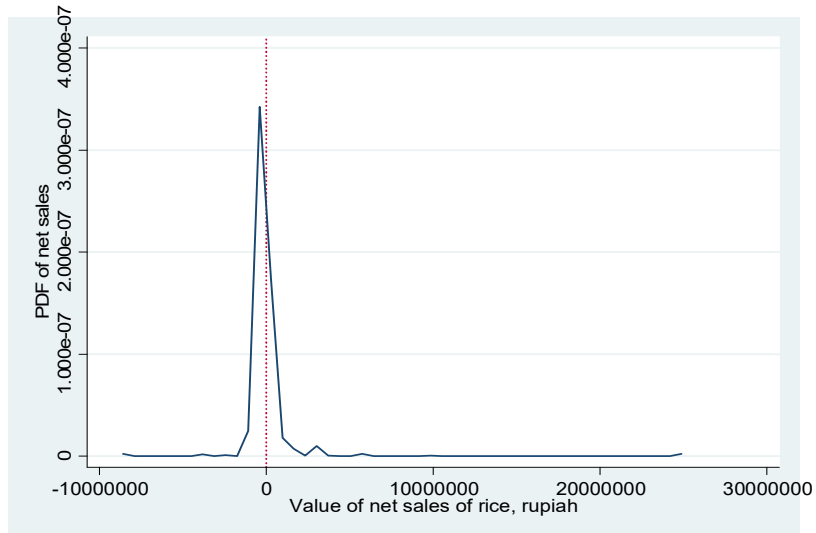
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The distribution of value of net sales of rice of urban households, 2007



Source: Calculated from IFLS4 (2007).

The distribution of value of net sales of rice of rural households, 2007



Source: Calculated from IFLS₄ (2007).

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“We all know what to do. What we don’t know is how to get re-elected after we do it.”

Muhammad Chatib Basri, former Minister of Finance.

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