Openness in Trade and Investment: Putting the Debate in Indonesia's Development Context

Executive Summary for Policy Note on Openness, Growth, and Productivity

Multi Partner Facility
Trade and Investment Climate

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Printed in April 2015

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Acknowledgement

This report was prepared by a team consisting Sjamsu Rahardja (task team leader, GTCDR), Gonzalo J. Varela (GTCDR), Fitria Fitrani (GMFDR), Leonardo Iacovone (GTCDR), Beata Javorcik (LCRCE), Moekti P. Soejachmoen (Mandiri Institute), and Victor Duggan (OECD).

The team received valuable guidance from James A. Brumby (GGODR), Ndiame Diop (GMFDR), Shubham Chaudhuri (GMFDR), Sudhir Shetty (EAPCE), Stefan G. Koeberle (OPSOR), Tatiana Nenova (EACIF), Mona E. Haddad (GTCDR), and Rodrigo A. Chaves (EACIF). The team also received valuable materials and inputs from Enrique Blanco Armas (GMFDR), Enrique Aldaz-Caroll (GMFDR), Brasukra G. Sudjana (GTCDR), Maria Monica Wihardja (GTCDR), Peter K. Milne (GMFDR) Henry Sandee (GTCDR), M. Adhi Dipo (GTCDR), and Nanda Nurridzki (GTCDR). The team also thank Ashley Taylor (GMFDR) and Thomas Farole (GCJDR) for their comments.

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Indonesia's relative success in weathering the global financial storm of 2007-08 brought its domestic demand-driven economy into the international spotlight. Indonesia managed to deliver annual GDP growth at a respectable rate of 4.6 percent, while the global economy contracted by -0.38 percent. Prudent macro and monetary policies certainly contributed to the relatively stable growth. However, unlike most export-oriented economies, the size of Indonesia's domestic demand also contributed a strong cushion for growth. With a large domestic market—home to roughly 40 percent of the total 620 million population of Southeast Asia—and a rapidly emerging middle-class, these provided a strong basis for autonomous consumption spending. This, in turn, has attracted unprecedented investment since Indonesia emerged from the turmoil and aftermath of the 1997 Asian financial crisis. Real gross fixed capital

Background

formation has increased significantly and since 2013 has reached 37 percent of GDP, higher than the pre-Asian financial crisis years. A recent survey by the Japanese Bank for International Cooperation (JBIC) of Japanese investors reveals that Indonesia ranks as the number one destination for Japanese investment, due to its large internal market and the potential for growth in consumer spending going forward.

With a relatively young demographic structure, huge wealth on natural resources, and growing manufacturing and services industries, Indonesia has the potential to become one of the major global economies. The working age population in Indonesia will increase by 14.8 million over the next 6 years, reaching 189 million by 2020. Access to natural resources in agriculture and minerals can strengthen the basis for an expanding processing industry that prioritizes proximity to consumers in domestic, as well as regional, markets. Albeit less connected to the regional production network than most of its regional peers, manufacturing in Indonesia is starting to find its feet, driven by a rapidly expanding consumer class and, to far lesser extent, an export market in ASEAN and beyond. At the same time, the availability of resources will attract investment into heavy domestic processing industries as demand increases further. Meanwhile, the services sector, including construction, telecoms, logistics, and tourism have also benefited from large domestic demand and this has contributed the creation of 17 million new jobs in the past decade. Against this backdrop, Indonesia has the right ingredients and the prospects going forward to continue expand its economy at a rapid pace.

However, the relative success of this growth model has generated a perception among many in Indonesia that greater openness to the world economy is no longer needed. There is a popular perception that openness to trade and the presence of foreign direct investment (FDI) undermine Indonesia's development. The mantra seems to be: *exports are good, imports are bad*. Populist commentators and the media often advocate a mercantilist approach to openness to the world economy, namely that an open economy is simply a *zero-sum game* and can only be good as long as it creates a trade surplus. There is a view that opening up the economy would lead to dependency, loss of opportunities for domestic companies, and loss of control over policy sovereignty. For example, policy debates in the agriculture sector often view international competition and foreign investment as threats to the development of the domestic agriculture sector. The debate on openness was exacerbated after imports of capital goods and raw materials caused Indonesia to post its first ever account deficit of 3.2 percent of GDP in 2013, which contributed to macroeconomic instability and capital flight.

The prospect of full implementation of the ASEAN Economic Community (AEC) in 2015 has created tensions over whether or not Indonesia should fully implement its commitment. The media often reports anxiety over readiness to stand up to greater foreign competition, particularly from firms of neighboring countries.[1] This has generated perception that foreign competitors will dominate Indonesia's large domestic market and therefore more protectionist policies are needed.

1 For example, "Indonesia 'Not Ready' for Asean Free-Trade Zone, Minister Says", The Jakarta Globe (4 Jan, 2014)

There is increasing pressure on the Government to promote industrialization by restricting trade and limiting room for foreign investment. There seems to be a perception that government interventions are needed to ensure Indonesia avoids over-dependence on imports or foreign investment that would undermine its sovereignty. There is also a perception that Indonesia should substitute imports by developing heavy industries domestically until the processing stage to fully tap into the potential in natural resources and the size of the domestic market. To some extent these beliefs and perceptions have translated into policy action. While aspiring to facilitate industrialization, Law No.3/2014 on Industrial Affairs contains provisions that could potentially lead to interventionist regulations.[2] On trade, Indonesia now ranks top among those countries imposing non-tariff measures (NTMs), higher than all the other ASEAN countries. Since 2011, there have been at least three ministerial decrees subjecting imports to NTMs, such as requirements for recommendation letters from sub-national governments, pre-shipment inspections, and special permits. The restrictions on exports of unprocessed minerals is another example of policies to direct outputs to facilitate investment in domestic processing. Meanwhile, the reform agenda to further liberalize economic sectors for FDI is being increasingly challenged by new sectoral restrictions limiting foreign ownership.

The risk is that such policies will create real economy-wide costs that undermine development progress. Facilitating import substitution to targeted industries may involve protection or subsidies that are politically difficult to withdraw, divert scarce resources, and are often costly to administer. Although Indonesia may have latent comparative advantage to develop targeted industries, there are still gaps between basic requirements and existing conditions in infrastructure, agglomeration, the regulatory environment, and skills capacity, to allow industry in Indonesia to be competitive. Instead, trade restrictions and import substitution will have negative externalities to growth in other industries, through limiting access to intermediate inputs and foreign technology. Imposing restrictions on imports also imposes a tax on the ability of firms to export through changes in relative prices that shift existing resources to import-competing sectors and away from other sectors, including export-oriented sectors. In this situation, import substitution is likely to be welfare-reducing and also undermine productivity.

The issue is not necessary whether the Indonesian economy is too open or too closed, but how to use openness in trade and investment to boost competitiveness and productivity growth. Indonesia can only fully tap its potential if it implements policies focus on addressing challenges to improving efficiency in supply responses. These require major investments in infrastructure, skills development, and a better regulatory environment. Openness in trade and investment can help influence the outcomes of supply response through at least two channels. First, evidence suggests that there are positive externalities from engaging in open trade and investment, namely efficiency gains from more competition and technology spillovers. Firms will have the flexibility to access the right resources to compete both domestically and globally. Second, openness also provides firms with an opportunity to explore or specialize in tasks where they are competitive and bring more value-added.

2 See for example, Nehru, Vikram (2013) "Survey of Recent Developments", Bulletin of Indonesian Economic Studies, 49:2, 139-166.

As part of the policy dialogue on Indonesia's development, the World Bank is producing the following series of policy notes on selected topics on openness, growth and competition in Indonesia:

1. The relevance of openness, growth and competition for Indonesia's development;
2. The existing knowledge on the role of opening up to FDI on growth and productivity in Indonesia;
3. The role of imported intermediate inputs in facilitating productivity growth and product diversification;
4. The state of Indonesia's participation in the global and regional supply chains; and
5. The impact of liberalization in the services industries on productivity in the manufacturing sector.

These notes are intended to stimulate evidence-based dialogue on the role of openness, productivity, and growth in Indonesia's development context by bringing to the discussion analysis of Indonesia's own data and the perspective from other countries.

The reemergence of a debate on the degree of openness of the Indonesian economy seems to coincide with new dynamics over industrial policy. Similar to the other ASEAN-5 countries—Singapore, Thailand, the Philippines and Malaysia—Indonesia started with an import-substitution industrial strategy in the 1960s. Since then, Indonesia has promoted and protected heavy industries such as cement, chemicals, fertilizer, petroleum, and steel, which are mostly run by state-owned enterprises (SOEs). The policy was intended to provide the basis for downstream industrial development within the country and to manage demand for foreign exchange for imports. The practice continued into the 1980s as the Government deemed certain industries, such as aircraft, automotive, and wheat flour, as strategic, and preserved them for SOEs and selected private-sector players.

Historically the success of industrial policy in Indonesia only occurred when the policy switched from one of import substitution to one of export promotion. Share of manufacturing

Openness, Competition, Growth and Productivity: Indonesia's Previous Experience and Current Context

The Crucial Relevance of Openness to Indonesia's Development Agenda

GDP did not change much during period of import substitution in the 1970s and early 1980s. While import substitution helped established the presence of heavy industries in Indonesia, control and protection over those industries created a drag for Indonesia's effort to diversify its economy from the oil sector after the collapse of the global crude price in the early 1980s. Opening up the economy and simplifying regulations promoted growth of footloose manufacturing industries, such as garments, toys, and footwear. The industrialization process following that switch in policy was notable: the share of manufacturing industry value-added to GDP increased from 13 percent in 1983 to 21 percent in 1993. In 1995, manufacturing sector absorbed almost 13 percent of total employment compared to 7 percent in 1987. Tariff reductions from 1990-2001 suggested that a 10-percentage point fall in input tariffs led to a productivity gain of 12 percent of via learning, higher quality and a variety of other effects.[3]

Against a backdrop of the renewed interest in such an industrial policy, it is important to put the debate into the current context, while being mindful of the possible adverse impacts of promoting bad policies. Trade restrictions and other interventions in unprocessed minerals, steel and electronics, are some of the examples of the renewed interest in promoting industrialization in these sectors, by substituting imports with products made in Indonesia. While Indonesia now has a large and growing domestic market to attract investment, industrial policy that promotes bad policy practices needs to be avoided (Box 1 provides an example from Indonesia's own experience).

Box 1. Unintended Consequences of an Import Substitution Policy

Import substitution that takes the form of protecting upstream industries from foreign competition is basically a tax on downstream processing that uses those protected inputs. In this case, the Indonesian economy will lose efficiency as a result of artificially higher costs for consumers and producers.

An import substitution strategy also usually leads to rent-seeking. Several cases of protectionist industrial policy in the past revealed the high risk of rent-seeking and the high level of corruption associated with such policies. Recent cases, such as promoting self-sufficiency in beef, suggest that good intentions only led to corruption, rent-seeking, and depriving Indonesian consumers access to an important source of protein. In his 1984 paper prominent Indonesian economist Thee Kian Wie (1935-2014) wrote that: "Import-substituting industrialization, if pushed ahead behind highly protectionist walls, is economically inefficient. It leads to serious distortions in the economy which are extremely difficult to correct once they are built into the economic structure of a country. For not only are physical structures or complexes of production established, but more importantly from the political economy view point, vested interests favoring the status quo which are supported by political power holders become practically impossible to dislodge, even when the high economic costs of these arrangements become evident."[5]

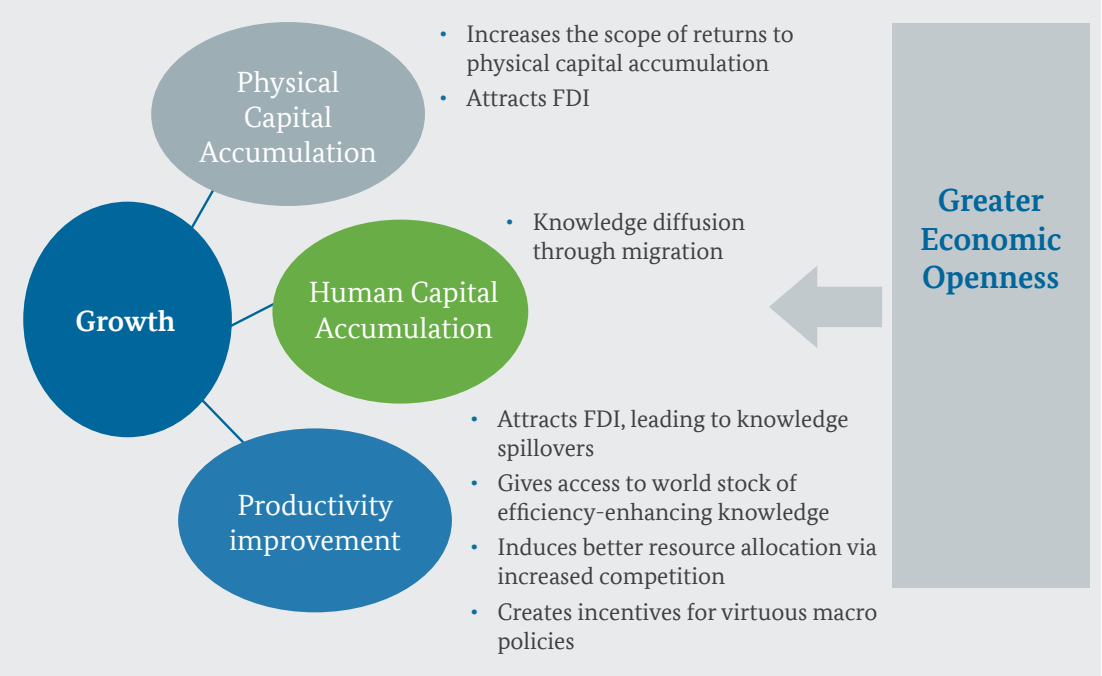
3 Amiti, Mary and Jozef Konings, 2007. "Trade Liberalization, Intermediate Inputs and Productivity: Evidence from Indonesia", American Economic Review, 97(5): 1611-1638

4 Thee, Kian Wie, 1984. "Japanese Direct Investment in Indonesian Manufacturing" Bulletin of Indonesian Economic Studies, 20:2, 90-106.

These experiences motivate the policy note on "*Openness, Growth, and Productivity in Indonesia's Development Agenda*". This note highlights the following aspects of openness, growth, and productivity in Indonesia's current development context:

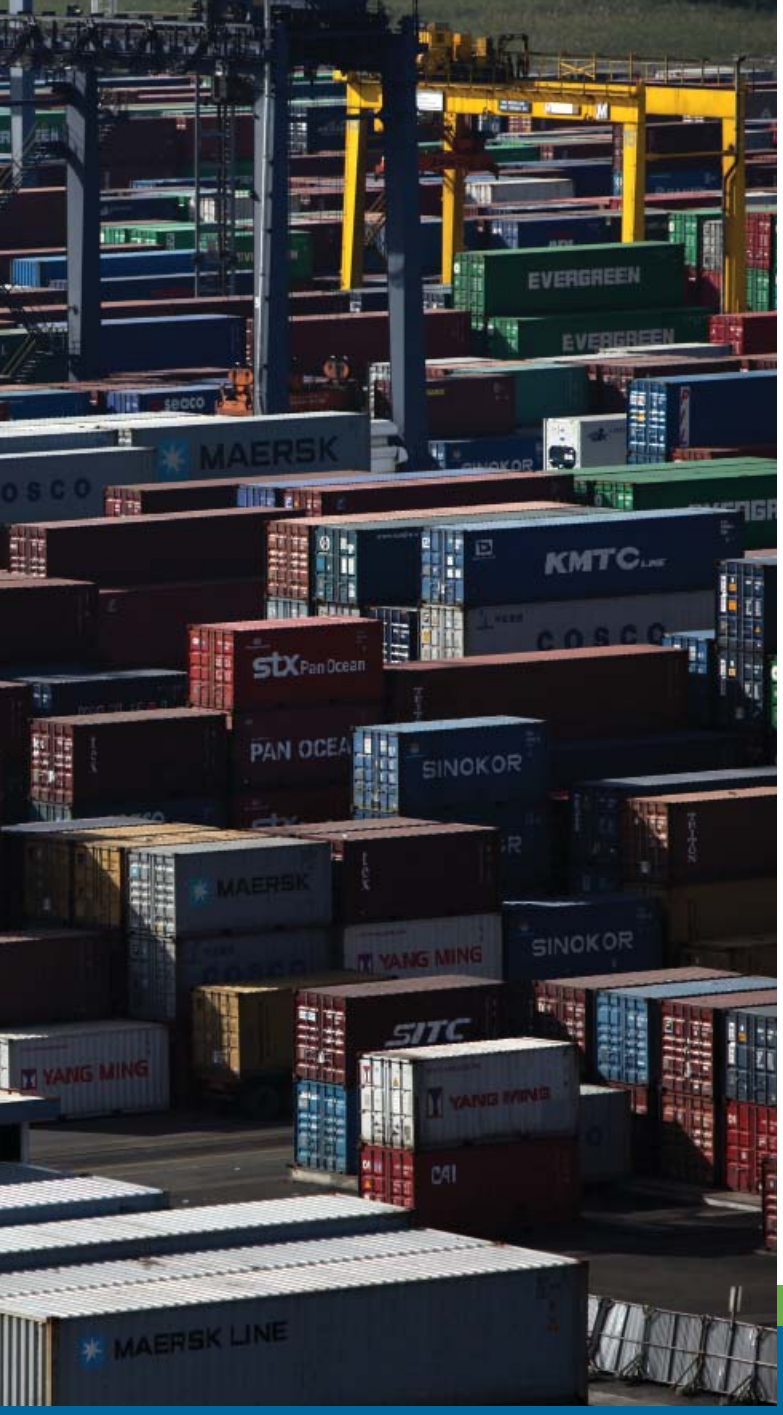
- Integration into the global marketplace provides opportunities for Indonesia through various channels: greater investment, efficiency gains, and transfer of knowledge for Indonesian businesses and workers (Figure 1).
- Investments and productivity growth are needed for Indonesia to grow faster and more inclusively. Investment remains important in providing job opportunities for millions of Indonesians entering job market, while improvements in productivity would facilitate more opportunities for high-quality jobs.
- Episodes of sustained growth across countries suggest that virtually all countries that grew rapidly did so by rapidly expanding their exports and imports rather than by substitution of imports with domestic production.
- Deep reforms are needed to ensure Indonesian businesses and workers can gain the most from greater integration to the global marketplace

Figure 1. Channels linking greater openness, productivity and growth



The policy tote on *Trade integration, FDI and Productivity* presents evidences from recent policy researches that arguing that engaging in an open trade and investment regime have brought productivity gains that are a key factor in sustaining increases in income per-capita. Key highlights from this note are:

- Evidence from Indonesia that suggests foreign-owned plants have become increasingly important, generating a significant share of exports and overall output, as well as being more productive and more export intensive than domestic plants, and spending more on R&D and training. Using Indonesia's census of medium and large manufacturers, this policy note reveals that foreign-owned plants are 39 percent more productive than their non-foreign owned counterparts.
- FDI also has positive impacts on firms in the same sector, through competition and demonstration effects, and in upstream sectors, as suppliers to foreign-owned plants improve the quality of their own products to meet their clients more exacting needs.
- Evidence also suggests a positive impact from import competition in improving allocative efficiency across manufacturing plants, which is a key element in driving productivity in the manufacturing sector.



An important channel to facilitate industrialization is by allowing firms to source inputs efficiently at world prices. Allowing firms to source input efficiently at world prices helps them to increase productivity and unlock the potential to develop new products. Openness to international competition provides competitive pressures for domestic firms producing intermediate products to innovate and operate more efficiently. Recent experience of countries in East Asia also suggests that allowing firms to source intermediate products and components from international markets allows firms in those countries to focus on production tasks that they are truly competitive. This model known as *global or regional supply chains* can help to shorten the time for a country to facilitate industrialization compared with adopting a strategy for developing a full industrial spectrum from upstream to downstream.[5]

5 Baldwin, Richard. 2011. "Trade and industrialisation after globalisation's 2nd unbundling: How building and joining a supply chain are different and why it matters". NBER Working Paper 17716.

Openness to trade and investment can help Indonesia to industrialize faster and diversify away from raw commodity

The policy note on *The Role of Imported Intermediate Inputs in the Indonesian Economy* highlights the role of openness to trade in driving up productivity and product diversification in Indonesia's manufacturing. This note provides statistical evidence on the impact of access to intermediate imports to productivity and product diversification from an Indonesian census of medium and large manufacturers. Key findings from this note are:

- Growth of intermediates imports generally matches growth of Indonesia's GDP, implying a relatively stable reliance on imported inputs.
- Users of imported inputs in Indonesia are exceptional performers: they grow faster in terms of output, value-added and employment, they are more productive, and they pay higher wages.
- Increased availability of imported inputs has contributed to improved product quality in Indonesian manufacturing. A larger share of imported inputs in total inputs, as well as lower tariffs on inputs, is associated with a higher probability of producing high-quality goods.
- Firms' product diversification processes have been boosted by lower tariffs on inputs, and by increased usage of imported versions.

The relevance of imported intermediate inputs also applies to the agro-industry where Indonesia has major opportunities. Allowing processors in the agro-industry to access imported intermediary inputs can help increase their competitiveness and standing in the global market place. Box 2 below provides an interesting example from Indonesia's coffee sector where access to imported coffee can help Indonesia's coffee processors to respond to high demand for coffee worldwide.

Box 2. Coffee Sector Competitiveness: Openness to Trade is a Vital Ingredient

Indonesia is the third-largest coffee producer in the world, with about 750,000 tonnes produced in 2013, ranking behind Brazil and Vietnam. However, coffee contributes less than 1 percent to Indonesia's total exports. There are almost 2 million coffee farm households across Indonesia, but coffee is just one small part of a diversified farm livelihood. Productivity is also low at only 700 kg/ha and, while Indonesia produces both Robusta and Arabica coffee, it is not good at producing specialty coffees that require specific topography, at elevations of more than 900 meters.

Indonesian coffee producers are being encouraged to shift their focus from producing high volumes to producing better quality and higher value coffee. Indonesia's Arabica coffee is generally sold at a premium, while Robusta coffee is sold at a discount to world prices. But, improving production quality requires investment in inputs (seedlings, clones, plantlets), skills (grafting and replanting), and processing (post-harvest, defect count, beverage processing).

Growth of coffee processing in Indonesia, mainly roasting, at 8 to 9 percent annually, is already growing faster than the world average, at around 2 percent per year. Indonesian beverage firms are also producing a range of products for the domestic market, such as green beans, packaged beans, sachets, ready-to-drink bottles, and also across different product types, such as traditional, gourmet, and specialty coffees. Indonesian coffee producers are experimenting with different marketing initiatives, including branding, product differentiation, geographic indicators, and trade-marks. These are all necessary in a market with numerous geographic origins and varieties. The challenge in the future is to simplify the varieties from a single geographic origin, and then to improve the quality of existing varieties.

But how should the Indonesian coffee sector respond to higher demand worldwide for better quality coffee? There are many possible responses to this question. But there is one upon which there is general agreement across the sector: protective trade policies will not help Indonesian coffee producers or farmers. Export duties could potentially distort prices, decrease farm gate prices, and be subject to WTO rulings. Most importantly, for Indonesian coffee to be processed into a high-quality final retail product, it needs to be blended with other imported coffee beans also of very high quality.[7] This means that imported high-quality coffee is a vital intermediary input in the high-end Indonesian coffee business. As such, import tariffs aimed at "protecting" the high-quality domestic coffee market would almost certainly end up hurting those coffee exporters who rely on high-quality imported coffee to make their top quality blends for export. Therefore, any import or export restrictions could adversely affect prices fetched by Indonesian coffee producers, and ultimately their competitiveness, both domestically and internationally.

The policy note on *Maximizing Opportunities from Global Supply Chains: Agenda for Reform*, discusses what Indonesia can do to increase its participation in, and the benefits from, global or regional supply chains. Important features that emerged from international supply chains are the important role of a ***competitive services sector*** to link different production tasks and ***efficient and reliable freight logistics*** to facilitate in-and-out movement of goods in the production process within and across borders. Key highlights of this note are:

- Infrastructure and freight logistics are the most important determinant of whether Asian countries participate in global supply chains. Improvements in infrastructure and operational efficiencies at airports and seaports are key factors in facilitating integration of Indonesian firms with international supply chains. For example, accessibility of Tanjung Priok port, which is the main international gateway in Indonesia, to Indonesia's largest industrial area in Greater Jakarta is relatively poor by comparison to accessibility of Port Klang of Malaysia or Leam Chabang of Thailand from largest industrial area in each of these respective country
- Improvement in trade facilitation (process of clearing exports and imports) is a cornerstone of logistics competitiveness that would allow Indonesian firms to join international supply chains. Indonesian firms are hampered from doing so unless trade facilitation in Indonesia allows them to operate on a level playing field with their peers in ASEAN.

6 Except for coffees sold as single origin speciality coffees such as Aceh Gayo or Bali Kintamani

- Another important factor is uncertainties around the business environment, including towards FDI. Lack of confidence in the business environment discourages international companies from expanding in, or relocating to, Indonesia, either as an export base or to source intermediate products from Indonesian companies.

Increasing delays due to longer dwell times, coupled with several policies adding to the uncertainties in import clearance, all serve to undermine the competitiveness of firms in Indonesia to export. Delays and long processes in obtaining import permits add additional costs. Policies such as pre-shipment inspection and non-automatic import recommendation letter are also contributing to long pre-customs clearance processes and have led high container dwell time in Tanjung Priok. Box 3 presents a case study from an international food-processing company in Indonesia that has to cope with a long process to obtain import approvals for each shipment of its intermediate inputs. Such a long process can undermine Indonesia's competitiveness as a basis for production, supplying domestic and export markets.

Box 3. Long Process to Obtain Import Approval: Case from a Food-Processing Company

A multinational company (MNC) in food processing industry imports fresh cheese to be converted into processed cheese. About 70 percent of production is sold in the domestic market, mainly to bakeries. Despite being a regulator importer, this MNC experiences serious obstacles in obtaining import permits/licensing. In early 2013, the dwell time for its refrigerated containers carrying fresh cheese rose to 53 days because an import permit was incomplete, preventing it from removing its containers from Tanjung Priok. Consequently, extra port (demurrage) charges meant that the purchase price of the cheese rose, while the company also lost out on production.

In order to understand how this could happen, let's look at how this MNC's import licensing process. Four permits are needed to import fresh cheese: (i) a Registered Importer Permit (Importer Terdaftar); (ii) an Import Approval (PI, Persetujuan Impor); (iii) an Import Certificate (Surat Keterangan Impor); and (iv) a Quarantine Permit (Karantina Hewan).

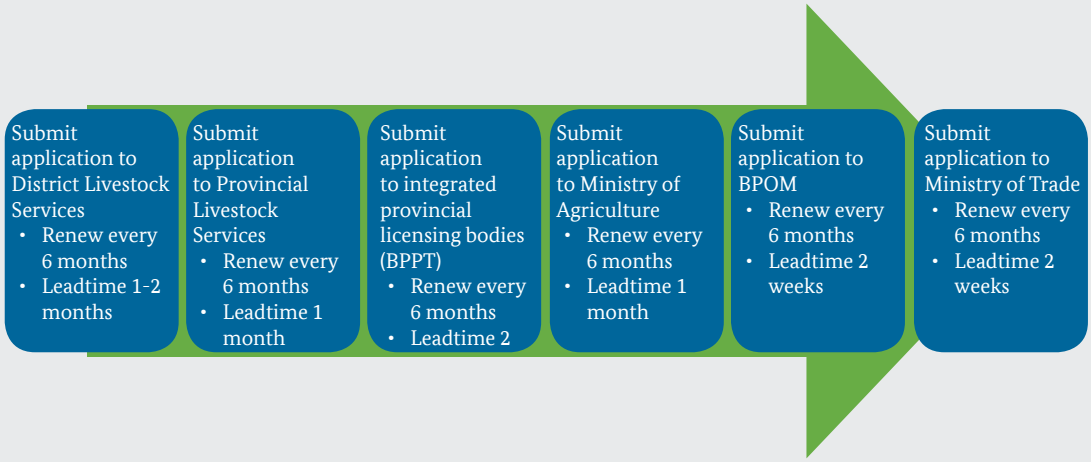
The Import Approval (PI) is considered the most difficult to obtain due to difficulties in obtaining supporting documents, specifically recommendation letters from the Ministry of Agriculture (MoA) and the National Agency of Drug and Food Control (BPOM). The PI is only valid for six months. However, based on this MNC's experience, 4 to 5 months are needed to obtain a PI, meaning that this importer should start renewing the PI 6 weeks after obtaining it for the same commodity and the same country of origin. The PI is issued by the Ministry of Trade.

Obtaining a Recommendation Letter from the MoA: The prerequisite for applying to the MoA for a recommendation letter is to obtain pre-recommendation letters from local governments, including: (i) Livestock Services, District Agricultural Office; (ii) Livestock Services, Provincial Agricultural Office; and (iii) Integrated Provincial Licensing Bodies (BPPT). Importers should apply for each pre-recommendation letter sequentially. Hence, it takes 10 to 14 weeks to obtain all three letters from the three offices. The importer should then bring them to the MoA to apply for a 'final' recommendation letter, which can add a further 4 to 8 weeks. A further complication is that when applying for a pre-recommendation letter, the importer should supply detailed information on volumes and specific ports of entry. This can be impractical due to the dynamics of business operations. Also, actual imports impact the quota allocated by local governments for the next import application. It is difficult for an importer to obtain a larger quota if the previous import realization was less than planned.

Obtaining a Recommendation Letter from BPOM: This MNC's experience shows that no clear or consistent rules exist for obtaining the recommendation letter from BPOM. BPOM officials may ask for new supporting documents when the importer applies and different treatment of importers may occur, especially if other importers offer inducements to expedite the process. This letter can take up to 2 weeks to obtain.

In the case of this MNC, it needs to renew 37 separate licenses every 6 months, while the lead time for import-license renewal is 4 to 5 months.

Obtaining Import Approval (PI) for an animal product: The schematic below illustrates the steps, the frequency of renewal, and time required to finish the steps ino order to obtain an Import Approval (PI).



The relevance of competitive sector for Indonesia's manufacturing is presented in the policy note on *Liberalization the Impact of Relaxing Service Sector FDI Restrictions on Productivity in Indonesian Manufacturing*. This policy note argues that more competition and participation by foreign firms in services can improve performance of the sector and lead to economy-wide benefits in terms of enabling manufacturers to improve their performance. This note reviews the international evidence available and presents new evidence on Indonesia regarding the positive spillovers that the easing of restrictions has had on productivity of domestic manufacturing firms. The economic impact of these spillovers is sizable. In fact, spillovers from service sector reform account for about 8 percent of the observed increase in Indonesian manufacturing productivity over the period 1997-2009.

Indonesia has benefited significantly from the degree that it has integrated with the global economy, but it has far more to gain. Evidence from Indonesia and elsewhere suggests that trade and FDI can improve productivity and boost both the quantity and quality of exports. Unfettered access to more, better, and cheaper inputs, including imports, helps to maximize the productivity of domestic and foreign-owned firms alike. Ultimately, openness to trade and FDI can be mutually reinforcing drivers of national competitiveness. Encouraging FDI through beefed-up investment promotion, introducing supplier development programs to help domestic firms to supply multinationals, and maintaining an open stance towards imported inputs, can help Indonesia move up the value chain and secure sustainable, long-term economic development.

The Relevance of Openness to Trade and Investment in Shaping Reform Agenda

Previous strategy to use open trade and investment policies to pursue exports has become less popular as interest pendulum shifts towards domestic market. Indonesia had used this strategy to push for sweeping reforms in the 1980s to reduce transaction costs for private sector that helped rapid expansion of the manufacturing sector and manufacturing exports in the 1990s.[7] However, this view has become less popular today because the domestic market is perceived as being more important than the export market.

However, maintaining an open trade and investment regime remains valid even when business interests are shifting more towards tapping opportunities from the growing domestic market. Evidence presented in theses different policy notes suggests that:

- Openness affects growth through capital accumulation that flow from FDI, knowledge spillovers, higher productivity through technological diffusion, and competition that also leads to better resource allocation. All of these are relevant for Indonesia if it hopes to develop a strong and dynamic domestic market (Policy Notes 1 and 2).
- Allowing firms to access imported intermediaries and allowing more FDI in services will help Indonesia diversify its economy away from raw commodities into processing and increased participation in international supply chains (Policy Notes 3, 4, and 5).
- Deep reforms and better infrastructure are needed to allow more efficient functioning of markets for domestic industries (Policy Note 1). Such requirements are important to ensure that domestic industries have better, or at least even, playing fields against competitors. They are also important in ensuring that domestic industries and individuals can benefit most from interaction with foreign counterparts, such as in technological exchange and spillovers.

Nevertheless, there is also a need for collective action and a shared responsibility from stakeholders to ensure that open trade and investment bring sustainable growth and shared prosperity to Indonesia. First, the Government needs to ensure the delivery of public goods (in education, health and infrastructure), proper functioning of markets (financial, labor, and inputs) and more conducive regulatory environment that facilitates growth of private enterprises. Strengthening social protection program, such as workers' insurance and unemployment programs, and ensuring delivery of public goods in education, health, housing, and transportation would ease adjustment costs borne by firms and workers from increased competition. Second, Indonesian private sector should continue to strengthen their governance and management to gain from open trade and investment. Private sector associations should also consider improving their capacity to engage in evidence-based policy dialogues with government counterparts to ensure that policies are not creating distortions instead bringing positive economy-wide impacts. Third, Indonesian's academic community needs to step up to the plate in informing the debate and policy dialogue through high-quality policy research on openness, growth and productivity in Indonesia.

7 See, for example, Soesastro, Hadi. M , 1989, "The Political Economy of Deregulation in Indonesia", Asian Survey, Vol 29. No. 9, pp 853-869, and Basri, M. Chatib and M.Hadi Soesastro, 2005, "The Political Economy of Trade in Indonesia", CSIS Working Paper Series no. 092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