The Development of Indonesian Manufacturing Sector: Challenges during External Shock and Effectiveness of Policy Response

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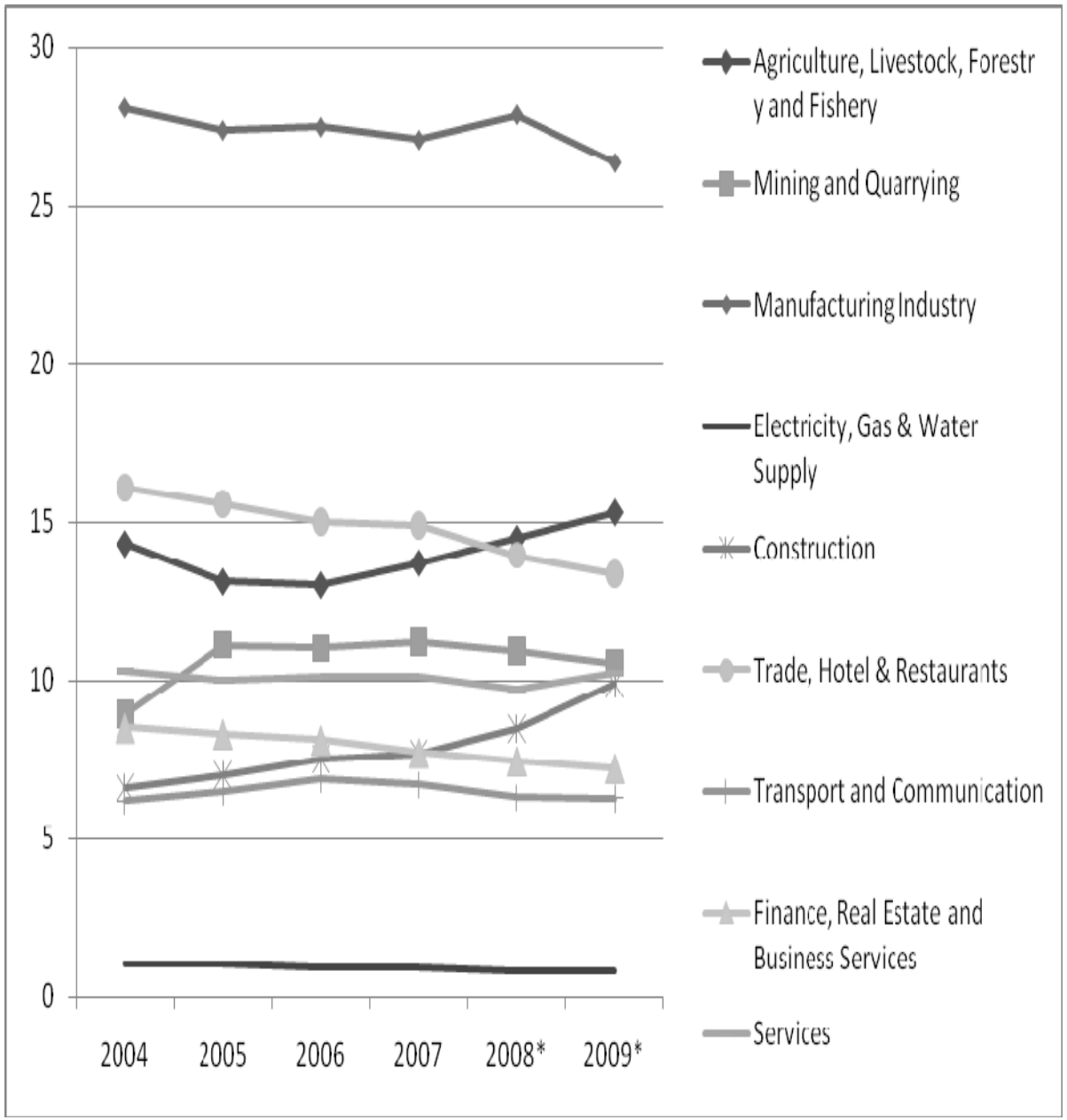
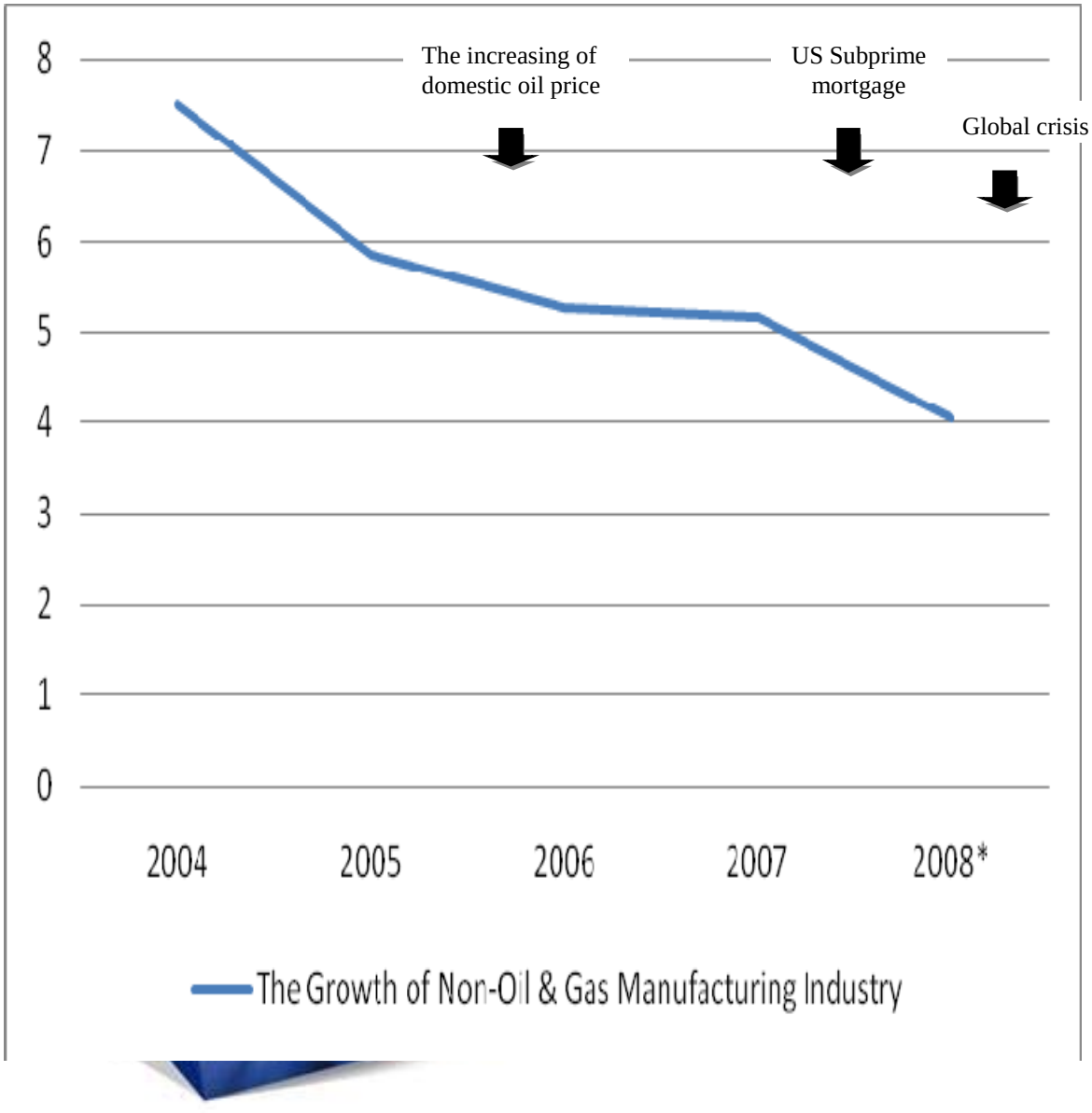
Introduction:

Manufacturing sector is more dominant than other sectors.

Contributed more than a quarter of Indonesian GDP in 2004- 2009.



Introduction:



- Manufacturing sector is highly sensitive to internal and external shock
- 2005: increased domestic oil price up to 126 percent
- 2007: US subprime mortgage
- 2008: Global financial crisis

Other economic shocks: High external debt, stagnant non-oil export, volatile agricultural price

External Shocks and Policy Response

- Government of Indonesia is concerned with the fragility of the manufacturing sector
- Fiscal and Monetary stimulus to support domestic industry facing the threat of global crisis
  - reduction of corporate tax from 30 percent to 28 percent,
  - reduction of individual income tax from 35 percent to 30 percent
  - reducing electricity price for industry.
  - Lowering interest rate

Objectives

Measure the role of manufacturing industry and how far the Indonesian manufacturing industry had developed.

Analyze the effectiveness of several policy responses to strengthen the performance of Indonesian manufacturing sector

Methodology:
(1) Input Output Analysis

- **Multipliers analysis: output multiplier (OM), income index (IM), forward linkage (FL), and backward linkage (BL)**

$$OM_i = \sum_{j=1}^{n} \alpha_{ij}$$

$$IM_i = \sum_{j=1}^{n} \alpha_{ij}^{*}$$

$$FL_i = \frac{n \sum_{j=1}^{n} \alpha_{ij}}{\sum_{i=1}^{n} \sum_{j=1}^{n} \alpha_{ij}}$$

$$BL_j = \frac{n \sum_{i=1}^{n} \alpha_{ij}}{\sum_{i=1}^{n} \sum_{j=1}^{n} \alpha_{ij}}$$

- **Biplot Analysis generated for IO 1995, 2000, 2003, and 2005**

Methodology:
mputable General Equilibrium

quilibrium model of the Indonesian economy
00, Warr and Oktaviani, 2008 Warr *et al.* 1998;
Wittwer 1999)

conditions for commodities and primary factors;
nds; Final demands; The relationship of prices to supply
and A few macroeconomic variables and price indices

Subsets	Desegregations
	Producers, investors, households, aggregate foreign purchaser of exports; government.
	One representative household
	52 industries based on 2005 Input-Output Table:
Labour	Mobile among sectors
Capital	Mobile among sectors for long run simulation