FACULTY OF ECONOMICS
ANDALAS UNIVERSITY

Thesis

Analysis Effectiveness of International Trade toward Poverty Reduction in Indonesia

BY
SUBRINI
06 151 018

The student of Bachelor Degree of Economic Department

Thesis is submitted in partial fulfillment of the requirements for the Bachelor Degree from Andalas University.

PADANG
2010

University Alumnus Registration No:	**SUBRINI**	Faculty Alumnus Registration No:

Personal Identity

a) Date of Birth: Padang/ April 7th 1988 b) Parents' name: Drs. Bukhari, MS and Henny Yanti c) Faculty: Economics d) Department: Economic e) Student No : 06 151 018 f) Date of Examination: August, 30th 2010 g) Graduate Standard: Very Satisfaction h) GPA: 3,45 i) Length of Study Period: 3 years and 11 months j) Parents' address: Banuaran Street Number 2 Padang 25222

Analysis Effectiveness of International Trade toward Poverty Reduction in Indonesia
Thesis by: Subrini Thesis Advisor: Prof.Dr.H. Syafruddin Karimi, SE, MA

ABSTRACT

This research study about Analysis Effectiveness of International Trade toward Poverty Reduction in Indonesia. This thesis analyzes the effectiveness of international trade toward poverty reduction in Indonesia using GLS (Generalized Least Square) by using cross-province data and regress it each year from 2000-2008. Variables used are poverty rate (P) as a dependent variable and trade openness (TO), foreign direct investment (FDI), unemployment (U), consumption (C) as an independent variables. Based on empirical result, suggests that trade openness and FDI are not significant and has negative relationship in order to decrease poverty rate. Furthermore, unemployment rate and consumption are significant but unemployment has positive relationship and consumption has negative relationship in order to decrease poverty rate. That means, only unemployment rate and consumption had been effective toward poverty reduction in Indonesia.

Keywords: international trade, poverty reduction, generalized least square, effective

This thesis has been presented before the examiners in the Thesis Examination and successfully passed the Thesis Examination on August 30th 2010.
The Abstract has been approved by the advisor and the examiners:

Signature			
Full Name	Prof.Dr.H. Syafruddin Karimi, SE, MA	Drs. Masrizal, M.Soc, Sc	Dr. Hefrizal Handra, M.Soc.Sc

Approved by :
Head of Department: Prof.Dr.H.Firwan Tan,SE,M.Ec.DEA.Ing
NIP. 130 812 952

Signature

The Alumnus has registered to the Faculty of Economy of Andalas University and has obtained the Alumnus Registration Number:

	The officer in charge of Faculty /Andalas University	
University Alumnus Registration No:	Name :	Signature:
Faculty Alumnus Registration No :	Name :	Signature:

CHAPTER I

INTRODUCTION

1.1 Background

The period since 1990 has been a decade of trade policy reform. According to the World Bank's World Development Indicators, the average tariff rate in the world went down from 10.5% to 6.0% between 1990 and 2002 and the ratio of imports plus exports in GDP rose from 75.2% to 86.8%. In 1990, the General Agreement on Tariffs and Trade had been signed by 96 countries: between 1990 and 2005, 65 countries joined it either as the GATT or in its most recent incarnation as the WTO. In analysis of trade liberalization experiences by Wacziarg and Welch's (2002), they account that 49 countries liberalized between 1990 and 2001.

International trade has some variables as indicators to measure whether after a country applied international trade, it has positive impact to the balance of trade. There are some indicators of international trade such as export, import, foreign exchange rate, investment, GDP, unemployment, etc. But in this thesis writer focus on openness (which openness formula is export plus import divided by RGDP), foreign direct investment, and unemployment.

On trade liberalization country episodes, shows that trade shares and growth increase significantly and substantially after trade is liberalized. Kose et al. (2004), look at interaction effects between trade openness measures and other variables. Kose complementing their research on financial openness and growth, report robust positive effects of trade openness on growth and find that trade openness turns the negative effect of volatility on growth into a positive one. Even on trade liberalization significantly to the growth, but does not has guarantee it will be significant to the poverty reduction.

Another empirical evidence about trade openness is come from Sergei Dodzin and Athanasios Vamvakidis (2003). The research is about the impact of international trade on the allocation of production across sectors in developing countries. The research estimates from a panel of 92 developing countries in the period 1960–2000. As a conclusion, they find developing economies that increased their openness to international trade during the period 1960–2000 experienced an increase in the production share of the industrial sector, at the expense of agricultural production. Since the industrial grows faster than the agricultural sector, the evidence suggests that one of the channels through which the positive openness.

By applied international trade, foreign direct investment as a capital inflow will be increase. Usually, foreign direct investment mostly comes from developed countries which have capital abundant. The ratio of private capital inflows to GDP as a growth determinant and have also evaluated the impact of different types of capital flows on growth (Bosworth and Collins 1999, Mody and Murshid 2002, Calderón and Schmidt-Hebbel 2003). Most of studies have found a positive impact of private capital inflows on growth, with a stronger effect in the case of foreign direct investment.

CHAPTER VI

CONCLUSION AND RECOMMENDATION

6.1 Conclusion

Based on empirical and statistical result, by doing international trade, variables of international trade have different correlation to the poverty reduction in Indonesia. From four independent variables, trade openness, FDI, unemployment and consumption get conclusion that two of variables trade openness and FDI are not significant and has negative relationship in order to poverty reduction. Rest of variables unemployment is significant and has positive relationship in order to poverty reduction. Last variable consumption is significant and has negative relationship in order to poverty reduction.

In Indonesia trade openness and FDI is not effectives toward poverty reduction. Mostly in other countries international trade actually had been gives positive impact to the poverty reduction. Especially in FDI, as we know that FDI as a capital inflow to a country. A country with high FDI will be has new job opportunities to the unemployment. But case in Indonesia, proportion of FDI is unbalanced between provinces. That means the proportion is not same to the regional state or provinces and creates gap among province. In Indonesia, most of industries are took place in certain province like Java. So, the flows of FDI mostly go to Java rather than another like Sumatera and Papua.

Every increasing 1% of unemployment causes poverty rate increase 0.104%. This is logic because mostly Indonesian people live below poverty line because they

REFERENCES

Bhagwati Jagdish and T.N.Srinivasan. *"Trade and Poverty in the Poor Countries".*

Bouët, Antoine. *"How Much Will Trade Liberalization Help the Poor?: Comparing Global Trade Models".* International Food Policy Research Institute

C. Anyanwu John. *"Do International Remittances Affect Poverty in Africa?".*

Daumal Marie. *"The Impact of Trade Openness on Regional Inequality: The Cases of India and Brazil".* UMR Dial. 2010.

Dodzin Sergei and Athanasios Vamvakidis. *"Trade and Industrialization in Developing Economies".* International Monetary Fund. 2003.

Figini Paolo and Holger Görg. *"Does Foreign Direct Investment Affect Wage Inequality? An Empirical Investigation".* IZA DP No. 2336. 2006.

Huang Chao-His, Kai-Fang Teng and Pan-Long Tsaic. *"Inward Foreign Direct Investment, Outward Foreign Direct Investment and Poverty: East and South- East Asia vs. Latin America".*

Hussain Siddiqui, Aamir and Javed Iqbal. *"Impact of Trade Openness on Output Growth for Pakistan: An Empirical Investigation".* 2005.

J. Bannister, Geoffrey and Kamau Thugge. *"International Trade and Poverty Alleviation".* IMF Volume 38 Number 4. 2001