

INTERNATIONAL TRADE AND POVERTY IN INDONESIA

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Globalization has conditioned Indonesia to open its economy to the world trade. Following the Heckscher-Ohlin-Samuelson model of international trade, Stolper-Samuelson theorem predicts that freer international trade favors countries' abundant factors and disfavors countries' scarce factors. Absolute and relative income of abundant factors will increase due to the expansion of international trade, while absolute and relative income of scarce factors will decrease as a result of international trade expansion. Stolper-Samuelson theorem implies that Indonesia as a relatively labor abundant country will find an increase in labor income due to the expansion of trade. This paper observe the role of Indonesia's international trade in relation to the trend of poverty and factor price ratio by using accessible secondary data. It is concluded that the association of poverty, relative labor income and international trade contradicts the validity of Stolper-Samuelson Theorem. It is suggested that Indonesia develop alternative domestic policy to prevent increasing burden of poverty potentially created by the implementation of ASEAN-China free trade agreement.

Keywords: Stolper-Samuelson Theorem; international trade; poverty; Indonesia.