

Global Value Chains and Inclusive Growth: Lessons from Indonesia's Export Expansion

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Ministry of Trade, Indonesia

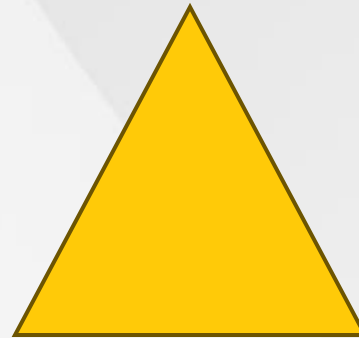
Why Inclusive GVCs Matter

- ❖ Almost **60% informal workers** in Indonesia
- ❖ **Export growth \neq inclusivity**
- ❖ **GVCs = half of global trade**

Growth via GVCs does not guarantee inclusivity

GVCs in an Era of Uncertainty

Geopolitics & Protectionism
→ supply chain realignment



- **Climate Risks**
- → need for resilience
- & sustainability

Technology & AI
→ efficiency vs
digital divide

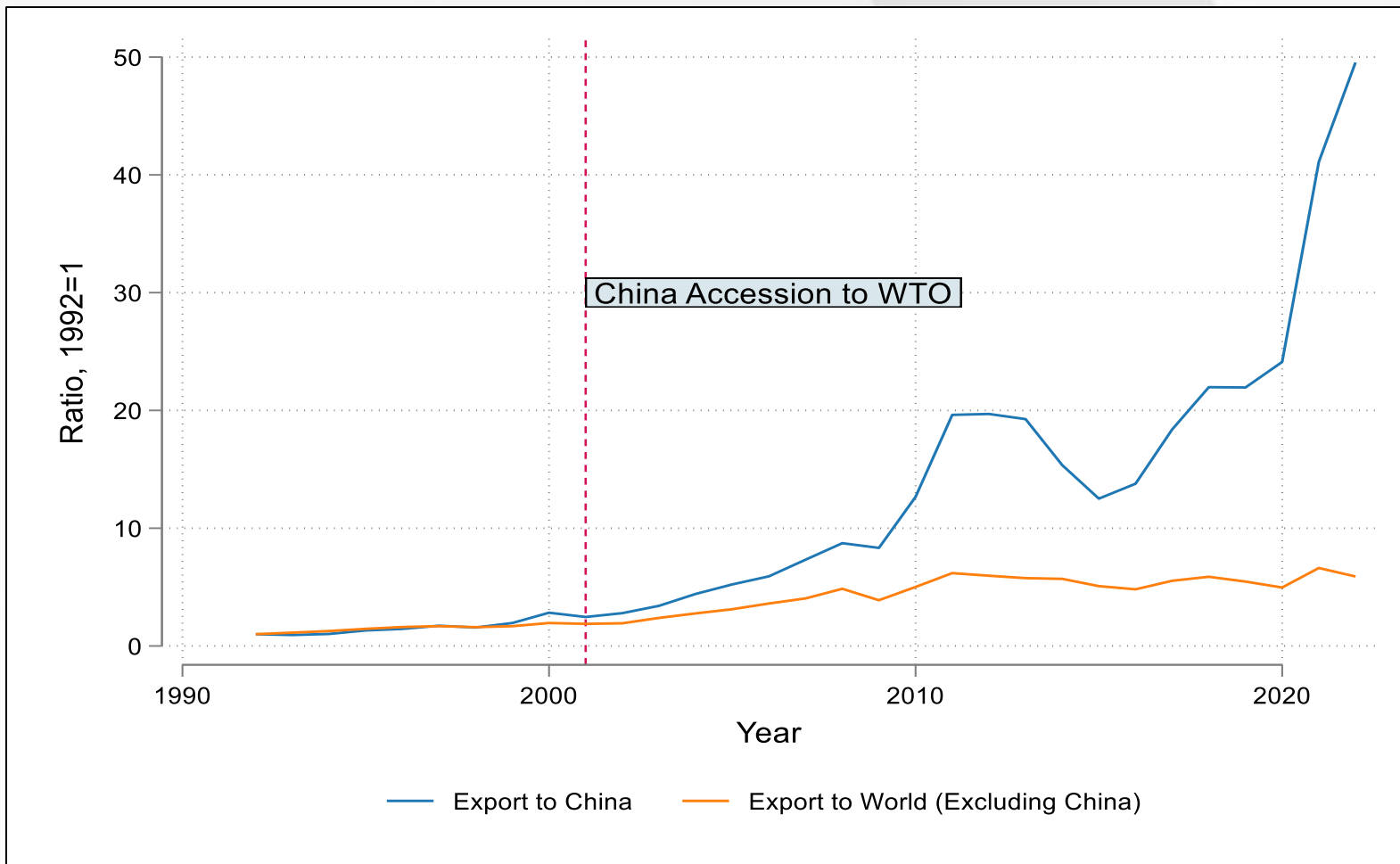
Resilient and inclusive GVCs are now imperative

Case Study: Indonesia's China Export Boom, 2000–2014

Laksono, R., Oktiyanto, F., & Vadila, Y. (2024). *Labor market impact of export in a commodity-dependent nation: The case of Indonesia* (No. 1481). ADBI Working Paper.

<https://doi.org/10.56506/BQNN1863>

Indonesia's Export Boom



- After China joined WTO, its demand surged → global trade shock.
- Indonesia's exports to China doubled in share 2001–2007.
- Mostly resource-driven, but manufacturing exports also rose → this matters for inclusivity.

Source: Authors' estimation based on UNCOMTRADE data, downloaded from WITS database

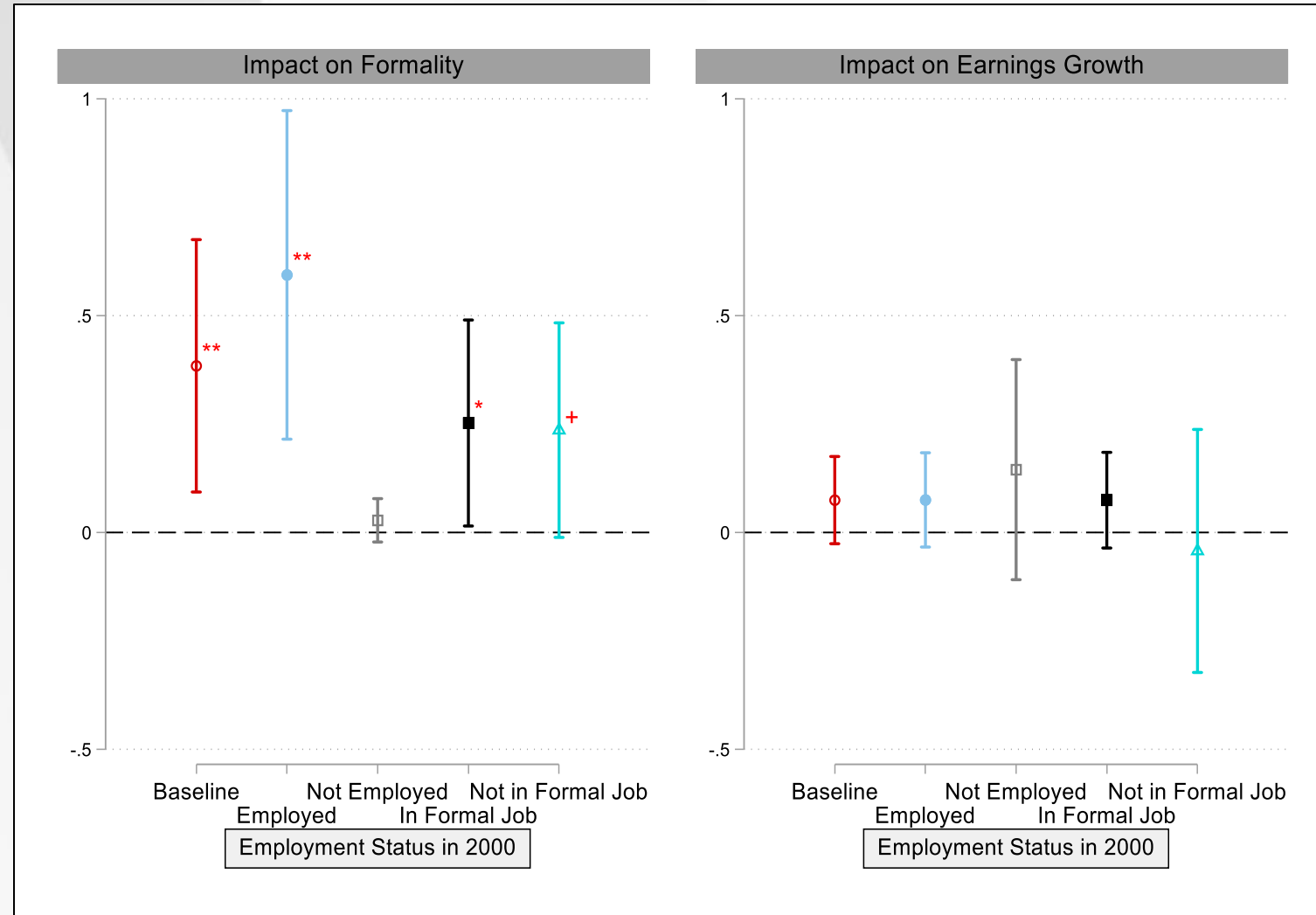
China's WTO accession created a natural experiment for us

Research Focus

- ❖ Jobs – Formal employment?
- ❖ Earnings – Did wages rise?
- ❖ Inclusivity – Who benefitted most?

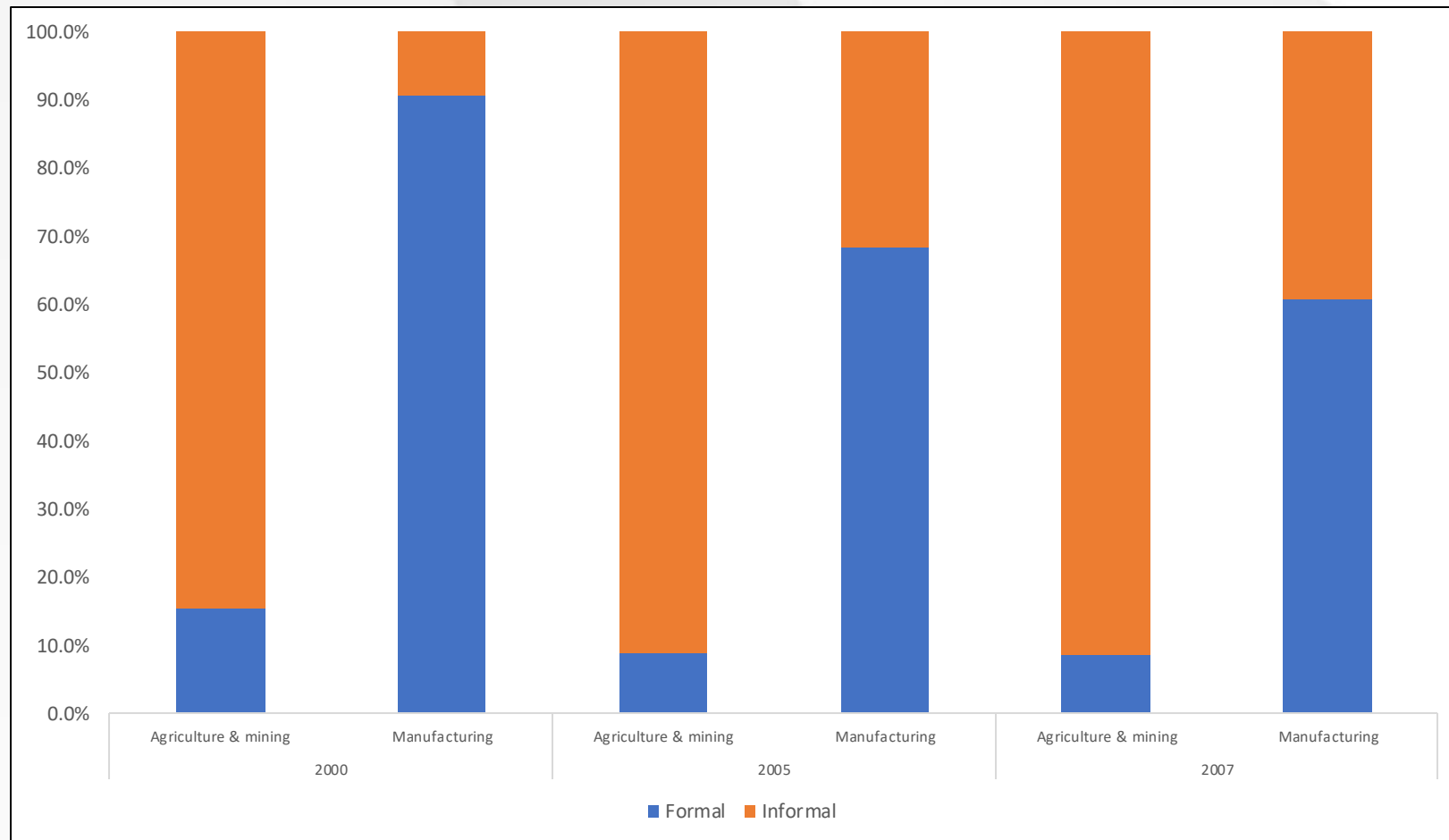
Finding 1: Jobs

- Export exposure → **more formal jobs**
- Helps workers stay formal and supports transitions from informal → formal
- Effect seen mainly in job quality, not higher wages
- Earnings growth impact = weak / not significant



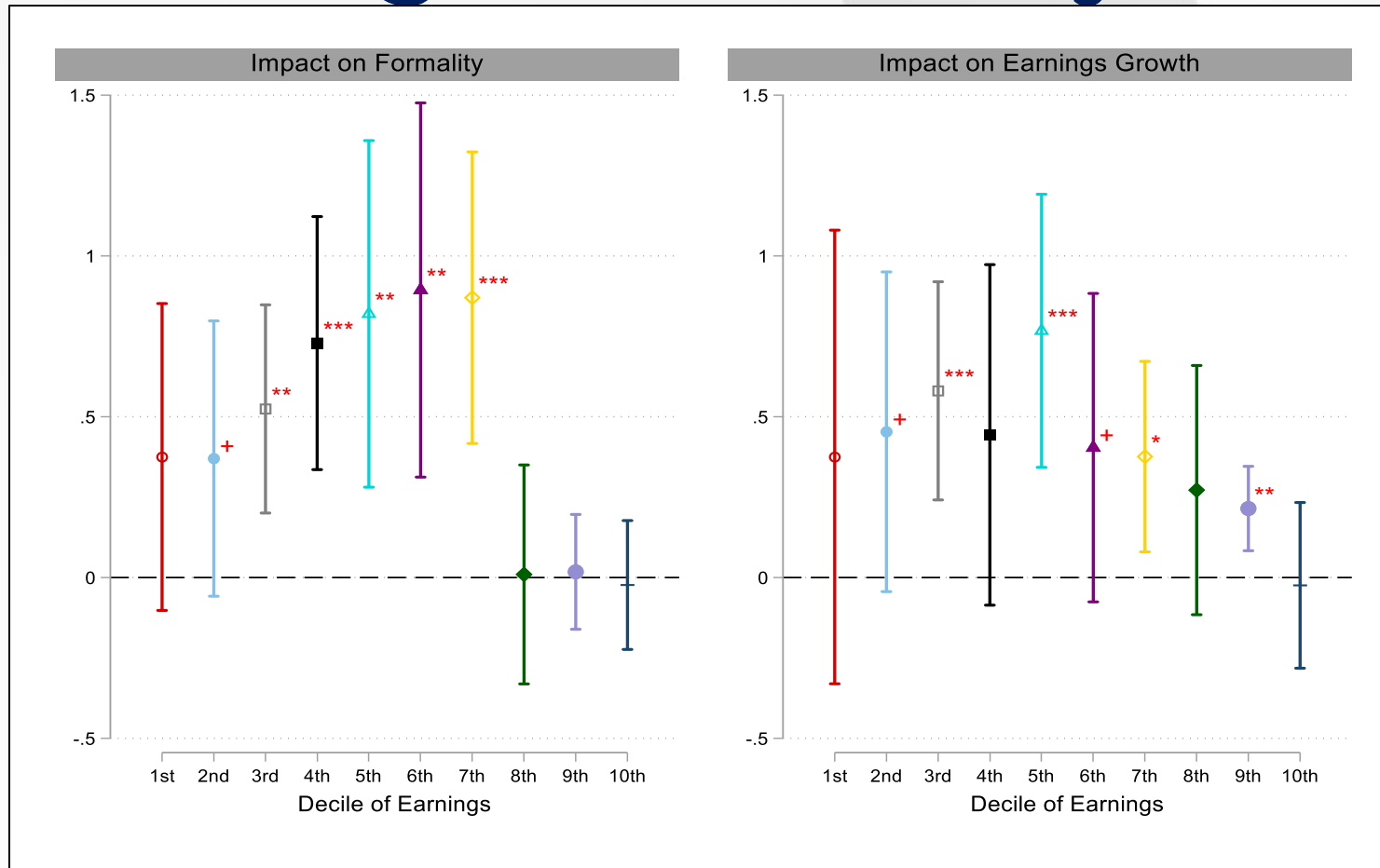
Note: Significance: + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Employment in manufacturing sector is mostly formal



Source: Authors' calculation from Sakernas datasets

Finding 2: Inclusivity

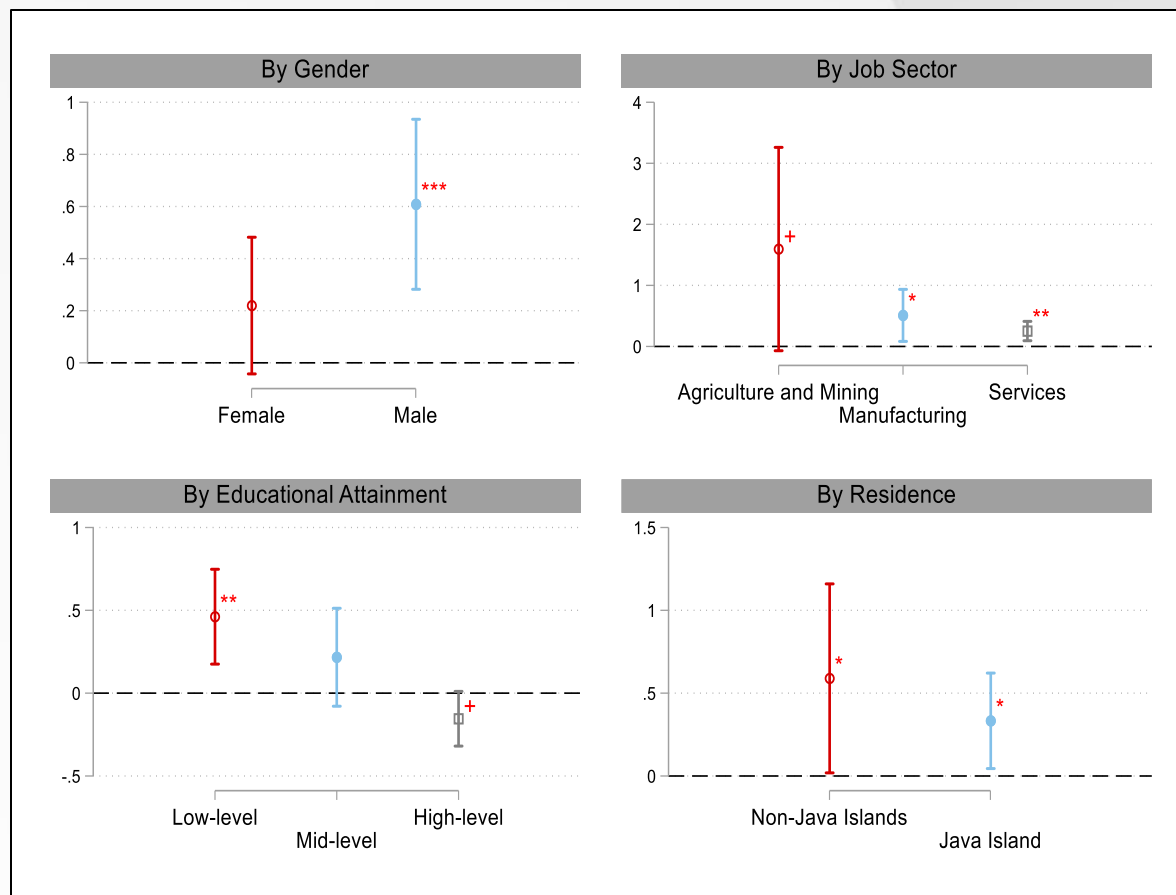


Note: Significance: + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

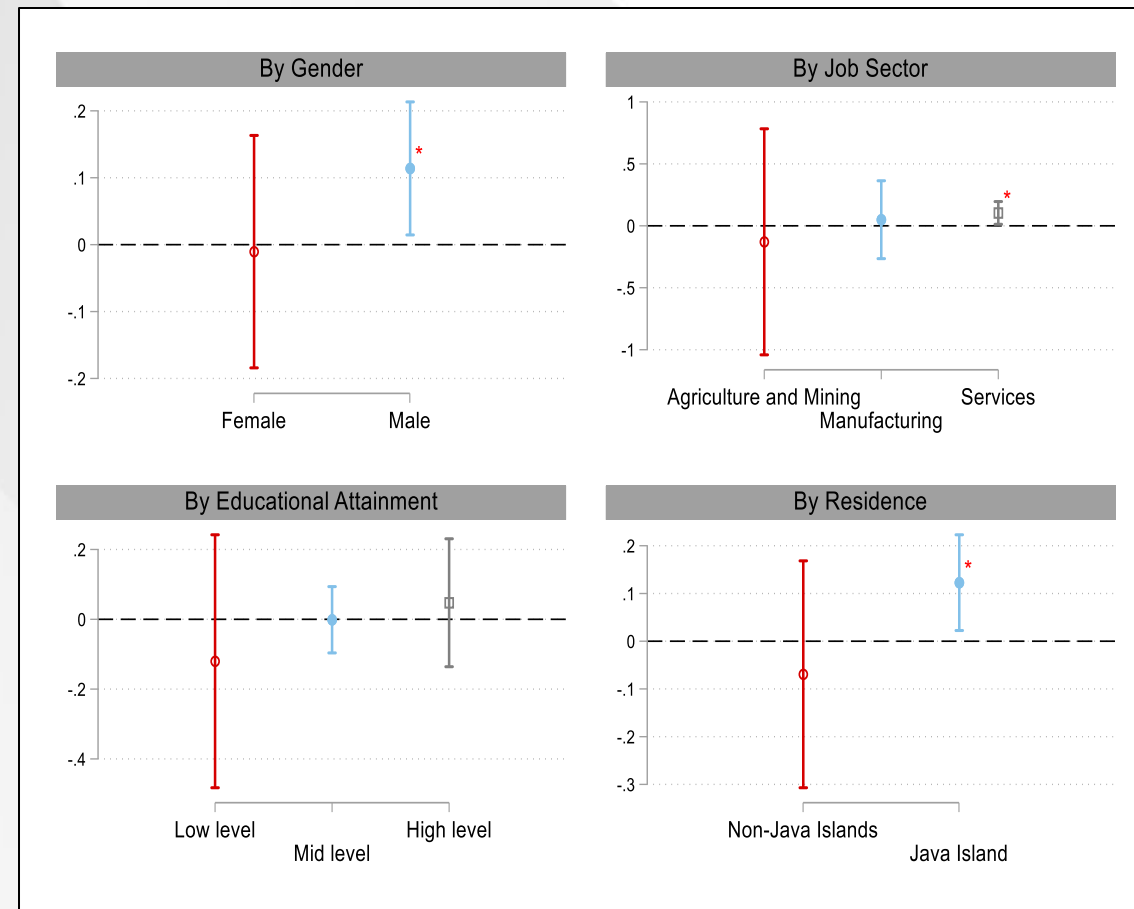
- ✓ **Lower–middle** income groups (3rd–7th deciles) **gained most**
- ✓ Top earners already formal → little change
- ✓ Lowest earners remained stuck in informality
- ✓ Export expansion = progressive, but not universal

Gains were progressive, but poorest excluded.

Heterogenous Impact

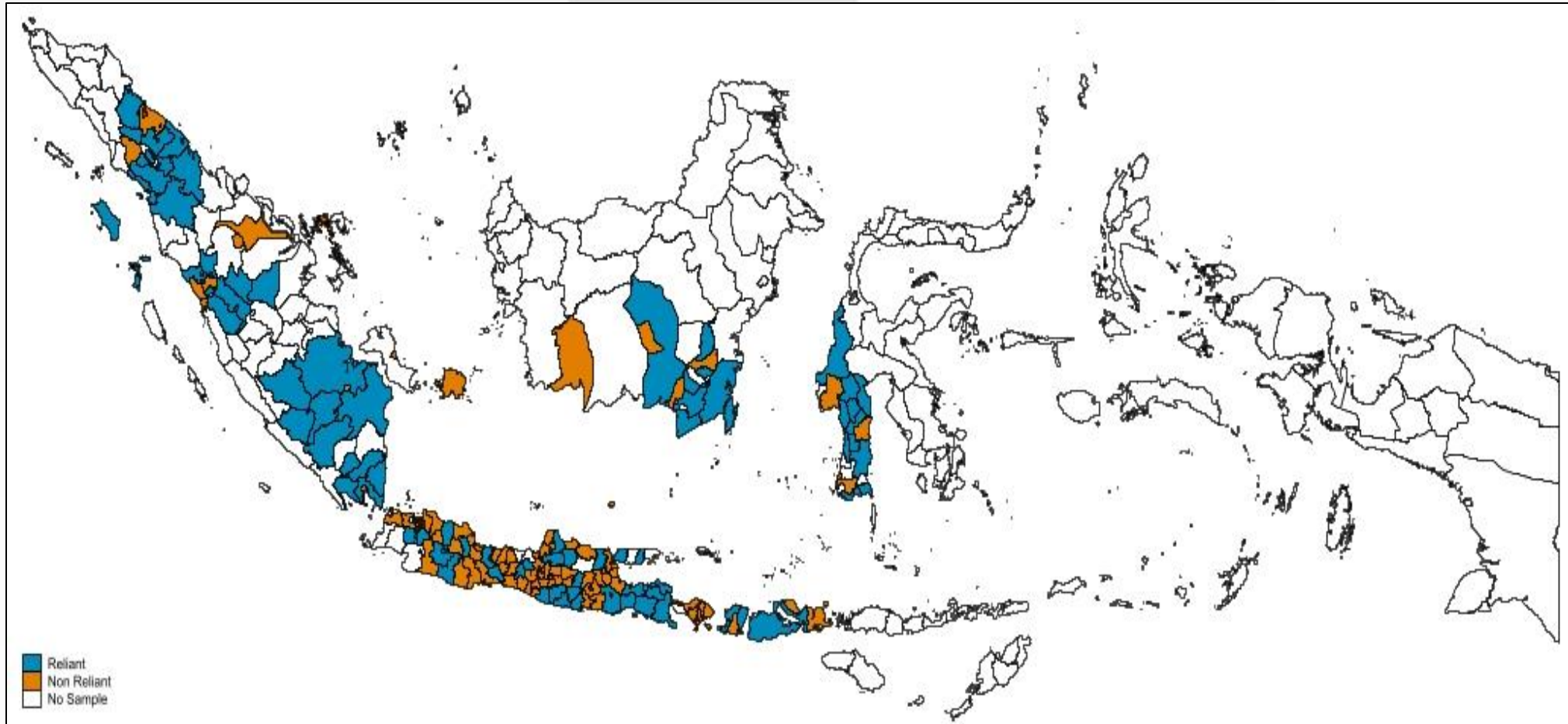


- Significant effect is mostly concentrated in the group that start with high informality in the base year of 2000, except for female



- Stolper-samuelson at local level: exposure is concentrated in Java → factors are more male dominated and works in services

Commodity-reliant vs non-commodity-reliant districts



Note: Districts that have above median employment share in agriculture and commodity sectors are considered as “commodity reliant districts”, while the remaining districts are grouped as “non-commodity reliant districts”.

Source: Authors' calculation

Finding 3: Manufacturing vs Commodities

Impact on Individuals, by Districts' Endowment

	(1)	(2)	(3)	(4)
	Formality		Earnings Growth	
	Non-commodity reliant Districts	Commodity reliant Districts	Non-commodity reliant Districts	Commodity reliant Districts
Indonesia's export expansion 2000-2007, 2000 district weight (Standardized)	0.322* [0.144]	2.255 [4.802]	0.110* [0.0501]	-5.115 [16.63]
Observations	4402	2499	2876	1530
R2	0.070	-1.276	0.019	-5.358
Province FE	Yes	Yes	Yes	Yes
Covariates	Yes	Yes	Yes	Yes
Kleibergen-Paap F-Stat	45.99	0.213	47.24	0.0973
Robust CS (lower bound)	-0.037	N.A.	0.016	N.A.
Robust CS (upper bound)	0.561	N.A.	0.218	N.A.
Non-Robust (Wald) CS (lower bound)	0.041	-7.157	0.012	-37.708
Non-Robust (Wald) CS (upper bound)	0.604	11.667	0.208	27.478

- Positive impact of export on formality and earning growth is driven primarily by individuals living in non-commodity reliant districts (strong F-stat and coefficients well within robust CSs)
- As non-commodity reliant districts have larger endowments in manufacturing sectors, our main results, therefore, pick up the effect of manufacturing export expansion
- No discernible effect on formality and earnings growth in commodity-reliant districts: F-stat very low, inflated 2SLS effect

Manufacturing, not commodities, drives inclusivity

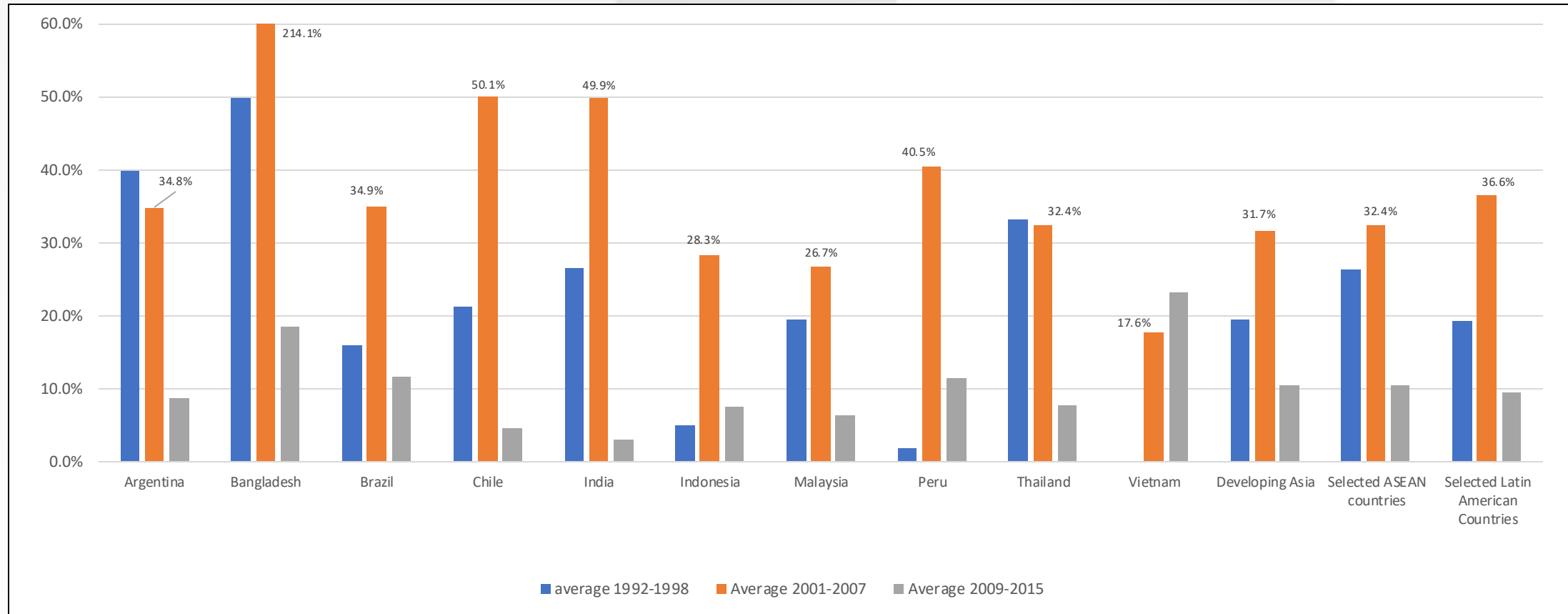
Mechanism: Why Manufacturing Helps

Exports Expansion → Firms → Jobs → Inclusivity.

- **→ Export Expansion**
 - (driven by global demand, esp. China's WTO accession)
- **→ Firms Respond**
 - Export-oriented businesses grow
 - Manufacturing firms comply more with labor regulations
- **→ Labor Market Effects**
 - More **formal jobs** created
 - Transitions from **informal → formal**
- **→ Inclusivity Outcomes**
 - Gains strongest in **manufacturing-based districts**
 - Commodity districts show **weaker impact**

Broader ASEAN Context

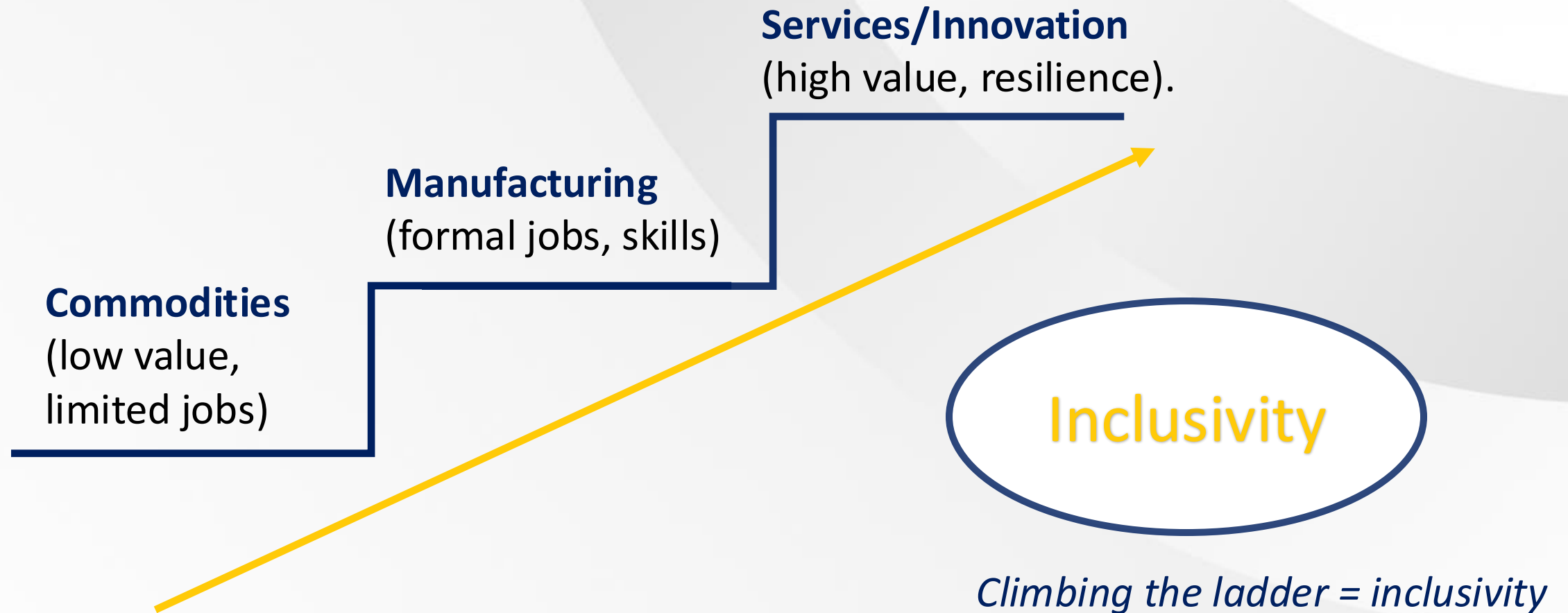
Export growth to China



Source: Authors' estimation based on UNCOMTRADE data, downloaded from WITS database

Export boom was regional → lessons beyond Indonesia

The GVC Ladder



Policy Takeaways

- Diversify exports.
- Support manufacturing upgrading.
- Strengthen GVC linkages (ASEAN).
- Investment-friendly regulation.
- Balanced regional development.

Economic strategies for upgrading GVC participation.

Policy Takeaways

- Skills & training.
- Labor formalization.
- Social protection.
- Digital readiness.
- Gender inclusivity.

Social & labor strategies for inclusive outcomes

GVC integration can be inclusive — If supported by upgrading and people-centered policies.