The theme of this dissertation is the exports policy issues in developing countries especially on maintaining rapid and sustained exports performance and the importance of exports on economic development.

The study provides the perspective of developing countries using one country as a case study upon some established development economic concepts, especially with regard to export-led development and export determinants. The main concern in developing countries’ development strategy is to achieve high and sustainable economic growth. One measure to achieve such an objective is through exports development.

For this purpose, this study focuses on two main issues with special attention of Indonesia case. First, considering the characteristics of Indonesia as a populous, vast domestic market, and previously oil-dependent economy, it is our attention to assess the interaction between exports and economic growth as to whether export promotion is an appropriate development strategy for economic development. In this regard, we test a validity of Export-led Growth (ELG) hypothesis in Indonesia. Second, what factors determining the performance of export performance and how should they be administered to promote sustained and rapid the economy. In this case, we consider some export determinants guided by related theoretical foundations: price and income factors; commodity composition, market distribution and competitiveness, all of which are as non-price factors; and FDI and exchange rate. These selected factors may affect exports performance leading to higher economic growth.

In so doing, the study maintains some following specific objectives: to review the ELG hypothesis in Indonesia; to investigate price and income effect on exports performance; to scrutinize the influence of commodity structure, market distribution and competitiveness on exports performance; and to analyze the
impact of FDI, domestic investment and exchange rate on export performance; to draw significant policy implications in the area of international trade policy in Indonesia. In scrutinizing the importance of exports on economic growth as well as the determinants of exports performance, this study deals with several established economic concepts, namely ELG hypothesis, price- and income effect of demand and supply for exports frameworks, domestic demand-pressure hypothesis on exports performance, Constant Market Share (CMS) analysis of exports growth, and Kojima (1975) hypothesis of FDI complementary to trade.

The present study is divided into several chapters as follows: the first chapter is the Introduction, which explains the background, objectives, significance, scope and limitation, and the organization of the study including framework of dissertation. Chapter 2 reinvestigates the ELG hypothesis by controlling variable of imports of capital and intermediate goods. Chapter 3 examines the impacts of foreign- and domestic-demand, proxied by price and income factors, on exports performance. Chapter 4 scrutinizes the contribution of exports structure and competitiveness on the export performance of manufacturing commodities classified by factor intensity, followed by estimation of the impact of FDI and exchange rate on manufacturing exports performance in the penultimate Chapter 5. Finally, Chapter 6 provides concluding remarks.

Chapter 2 reinvestigates the validity of outward-oriented or ELG hypothesis by controlling important variable of imports of capital and intermediate goods. The contribution of this chapter to existing literature is through the application of co-integration technique and Granger causality within vector error correction model, which enables one to dissect export-growth causal structure into long- and short-run perspective. The result indicates that exports and economic growth exhibit bi-directional causality, which is ELG in long-run and GLE in short-run. The evidence of GLE in short-run indicates the importance on productivity enhancing measures to promote export performance i.e. provision of excellent infrastructure, alleviate market distortion, prudent inflation management so forth. On the other hand, ELG result suggests the importance of astute export management so that any exporting activity can be managed in such a way to enhance continuous productivity and innovation (laddering up) through accumulative learning process in domestic economy to promote a sustained and rapid economic performance. In addition, imports of capital and intermediate goods are detrimental to economic growth both in long- and short-run. Even though it hampers economic growth, import of capital and intermediate goods is required for production of exportable.

Chapter 3 estimates the importance of foreign- and domestic demand on export performance by employing the 2SLS model that can handle the simultaneity problem of price and quantity of exports within supply and demand framework. Since previous ELG study exhibits a bi-directional causality between exports and economic growth, the inclusion of domestic-demand variable in export performance estimates becomes imperative. Both typical export variables of income and price factor are used as appropriate proxies for foreign-
and domestic-demand variables. Income variable is dissected into its secular (trend) and cyclical (deviation) movements which also enable one to test domestic-demand pressure hypothesis on export performance in Indonesia, which is as one of this chapter’s distinctions. The analysis also captures trade liberalization policy and some shocks suspected to influence export performance. The result indicates both price and income factors are significant in determining exports performance with highly elastic magnitude implying the importance of manufacturing commodities in export structure. The finding also reveals a validity of domestic-demand pressure hypothesis on export performance implying an existence of resource competition between export-oriented and domestic sector. The result also indicates the importance of government trade liberalization policy in reducing exports price. This justifies government role in managing export competitiveness.

Chapter 4 analyzes non-price factors of export performance in terms of product composition, market distribution and competitiveness, and assesses the evolution pattern of exports structure in manufacturing industries using CMS analysis and RCA indicators. The previous evidence on the importance of manufacturing exports calls for further analysis on the structure and evolution of manufacturing exports performance, as to whether they are sustained and upgraded overtime. The contribution of this chapter to the literature is that it dissects manufacturing export commodities classified based on factor intensity up to 3-digit code of Standard International Trade Classification, SITC, (rev. 2), which enables one to analyze the evolution of export structure and competitiveness contribution on export performance in designated export-oriented sectors. The results suggest that while mostly enjoying benefits from world export growth, manufacturing exports performance is deteriorated by negative effects of commodity composition and market distribution. The finding also indicates that competitiveness in manufacturing export performance has continuously diminished until recent years and there have been mild improvements in export structure indicating that manufacturing exports are still concentrated in natural resource- and unskilled labor-intensive commodities.

Chapter 5 further scrutinizes the roles of FDI, domestic investment and exchange rate in determining the performance of sector-based manufacturing exports. Previous findings indicate a slow progress in upgrading exports structure and deteriorating contribution of competitiveness. These are as rationales for further analysis on the determinants of sector-based exports by controlling variable of FDI, domestic investment and exchange rate. This chapter contributes to the literature by investigating the sector-based impact of inward FDI on a host country’s exports, using disaggregated data of manufacturing sectors categorized by factor intensity. Employing three different panel estimation models, this study shows evidence that FDI crowds-in manufacturing exports and it has a stronger effect in physical capital-, human capital-, and technology-intensive sector, without any evidence of a crowd-out effect in natural resource-intensive and unskilled labor-intensive industries—sector in which Indonesia has a comparative advantage. On the other hand, exports of natural resource-intensive and
unskilled labor-intensive industries are responsive to any changes in domestic capital formation. Exchange-rate influences manufacturing exports performance in all sectors, yet with sector-based differences across the two sector groupings, which suggest that more highly technological products tend to be more susceptible to exchange-rate changes, *vice versa*.

Several implications and policy recommendations may be derived from the findings. A balance emphasis in maintaining the roles of exports and domestic-demand is required for successful and sustained economic development in Indonesia. Imports of capital and intermediate goods should be well managed because highly dependence on imported inputs could be detrimental to long-run economic growth. This also calls for concrete actions for the development of viable export-supporting industries. Indonesia should continuously maintain its export competitiveness, and government may facilitate productivity & technology improvements in exports sector. In these regards, competitive exchange rate management, provision of excellent infrastructure and facilitation of more FDI toward export-oriented sectors to promote technology transfer and diffusion from multinational enterprises to indigenous firms’ export can be conducted by government. Upgrading in industry’s technological capabilities becomes imperative to rejuvenate against the depletion of comparative advantage in natural resource-intensive and unskilled labor intensive sectors. In addition, diversification of exports commodity structure and market destination are worth pursuing.

Finally, due to its inherent limitations, the study suggests some future research in following areas: the efficacy of export policy, impact of export diversification on economic growth, the effect of export diversification and new product discovery on export performance, the impact of exporting behaviour on productivity and innovation, and the effect of sector-based variation in FDI linkages on productivity and spillover.