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The Impact of Direct Bilateral Free Trade Agreement (BFTA) to ASEAN's Intra-Regional Trade & Individual Country's Investment Creation: *The Case of Indonesia, Malaysia & Thailand* 1988-2008

Kiki Verico

Abstract

Based on theory & empirical evidence from the experience of the European Union, the economic regional integration process started from a FTA (Free Trade Agreement), CU (Custom Union), CM (Common Market), Single Monetary Union (SMU) and Single Currency (SC). Economic regional integration is transformed from the liberalization of trade (FTA), investment (CU & CM) to financial integration (SMU & SC). ASEAN is currently still in the trade integration process (ASEAN FTA) and moving to investment integration, but without a CU. Different from a CU which regulates tariff rates between the member states and non-member states, a FTA does only regulate internal tariff rates within members and does not regulate external tariff rates between members to non-members. ASEAN with its AFTA implements "open trade discrimination" with "soft-type organization". Therefore, ASEAN cannot prevent its members to have "direct" bilateral free trade agreements with non-member states of ASEAN. Due to its open and soft type economic regional integration, ASEAN is dealing with "spaghetti bowl phenomena" in its trade-investment relations. There are various and fairly complicated free trade agreements (FTAs) that affect investment creation alongside FTA within members at the regional level (ASEAN Free Trade Agreement/AFTA), such as direct bilateral trade agreements between member & non ASEAN member states (Bilateral Free Trade Agreement/BFTA) and within limited ASEAN members i.e. SIJORI (Singapore, Johor-Malaysia, Riau-Indonesia), IMT-GT (Indonesia, Malaysia & Thailand Growth Triangle), BIMP (Brunei, Indonesia, Malaysia & Philippines) and unilateral trade liberalization towards the rest of the world which is practiced by Singapore and certainly the multilateral level agreement or the WTO. This study will focus on the impact of bilateral free trade agreements (BFTA) between members of ASEAN and non-member states at two levels: ASEAN's intra regional trade and individual country's investment creation (net FDI flows). This study applies some criteria to select observed countries from the 10 ASEAN member states and comes up with Indonesia, Malaysia & Thailand. In order to develop a valid and reliable model, this study adopts some macroeconomic variables as exogenous variables from various international academic journals. It adopts dummy-time variables, the time when the first bilateral free trade agreements were officially signed by the individual observed country. It was coded as one starting in that particular year. Time coverage is 21 years (1988-2008).

Keywords: *Bilateral Free Trade Agreements; Intra Regional Trade; Trade and Investment Relations; ASEAN*
JEL Classification: *F15; F21*

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CASH WAQF AND PEOPLE ECONOMIC EMPOWERMENT IN INDONESIA

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Abstract

Waqf is one of the Islamic institutions that tightly relates to social and economic problems of society. In many countries having developed productive waqf, waqf serves as one of pillars of their economies. In Indonesia, where Moslems are the majority of its population, the existing waqf has not yet been able to empower the people's economy substantially. This is probably due to the fact that the waqf existing in Indonesia is limited to the fixed assets and has not been managed productively. With the issuance of Law Number 41 Year 2004 on Waqf, it is expected that in Indonesia waqf may grow and develop satisfactorily, so that the results can be used to assist the government in solving the people's social and economic problems. The law on waqf governs not only fixed waqf assets, but also movable assets, including money. It is also important that waqf shall be managed by professional waqf nazhir (waqf managers) with the assistance of Indonesian Waqf Board.

Keywords: Cash waqf; Wakif; Nazhir

JEL Classification: Z12; H00

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Sheepskin and Working Experience Effects on Wage in Indonesia: The Importance of Signaling

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Abstract

The level of education can serve as a screening or signaling device in selecting workers who are detected through a sheepskin or diploma effect. This study will estimate the diploma effect on wage, and examines the pattern that is expected to disappear as work experience augments. The estimation technique used is Heckman's two-step in which variables years of schooling and diploma are included together as exogenous to Mincerian earnings equation. The data used is the 2006 SUSENAS. From the earnings equation, the effects are seen when diploma is interacted with type of occupation and economic sector. The highest diploma effect, in the magnitude of 52.11 percent, is experienced by blue collar workers who have university diploma in agriculture. The diploma effects of D-III and university decrease with concomitant increase in work experience, but not for high school diploma. Benefit of investment in education is only enjoyed by the grey collar workers in the service after they complete 16 years of schooling, unless the diploma effect is taken into account in the rate of return on educational investment. Government is advised to continue the 9-year compulsory education program until high school education and prevent drop out of school from happening.

Keywords: Screening device; Sheepskin or diploma effect; Wages; Work experience; Rate of returns

JEL Classification: I21; I28; J24

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The Seasonality of Market Integration: The Case of Indonesia's Stock Markets

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Abstract

Even though Market Integration and the Weekend Effect have been extensively investigated in the past two decades, the examination of its linkage has been rarely found. Considering its importance for portfolio practices, this study investigates the possibility of integration to occur on a certain day over the period of January 2000 until December 2010. This research employed Stehle's (1977) ICAPM model for measuring the market integration, and French's (1980) Weekend Effect for measuring the Weekend Effect in rolling regression mode. To control the equation, we introduce the exchange rate of IDR-to-USD, and oil prices. For robustness, we adopted and modified the French's Model to examine the seasonality inside market integration. This research remarks that there is seasonality in stock market integration.

Keywords: Stock Markets; Seasonality; Market Integration

JEL Classification: G15; F36; G12

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The Effects of Trade Liberalization on Wage Inequality and Informality in Indonesia: An Empirical Study

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Abstract

This study investigates the equity perspective of Indonesia's trade liberalization. Using a two-stage estimation framework, the author exploited labor surveys and international trade data to examine how tariff reductions have influenced Indonesia's wage inequality and informality during its 1995-2006 episode of liberalization. The results provide evidence that tariff reductions have ambiguously affected inequality among Indonesian workers. First, they have reduced inequality by causing workers of highly liberalized industries – in 1995, their industries were known as low-paying industries – to experience higher wage increases relative to the economy-wide average, thus narrowing the wage gap. Second, they have increased inequality by causing workers of these highly liberalized industries – in 1995, these industries were also known to have a relatively high probability of informal employment – to experience higher increases on the probability of informal employment relative to the economy-wide average. This means that these unfortunate workers were more likely to receive even lower payments, to be employed in poorer working condition and to be covered with less social protection.

Keywords: Indonesia's trade liberalization; Wage inequality; Informality; Two-stage estimation framework

JEL Classification: F16