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Modification of the Regulatory Impact Assessment on Indonesia's Economic Policies

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Abstract

This paper modifies the Regulatory Impact Assessment (RIA) method in Indonesia's trade, investment, and industrial incentive policies. First, it analyses the Indonesian Bilateral Trade Agreements of Indonesia – Japan Economic Partnership Agreement (IJEPA) and Indonesia – Pakistan Preferential Trade Agreement (IP-PTA). This paper found if the trading partner has GNI per capita higher than Indonesia's then the expected outcome was the increasing FDI inflows and if its GNI per capita lower therefore the most top foreseeable result was the rising net trade balance of Indonesia. Second, it analyses industrial sector incentive analysis and found that firms prefer supply-side than fiscal incentives.

Keywords: Regulatory Impact Assessment; public economics; Bilateral Trade Agreements; trade and investment; industrial incentive; Indonesia

Abstrak

Artikel ini memodifikasi metode penilaian dampak peraturan pada perdagangan, investasi dan kebijakan insentif industri di Indonesia. Analisis pertama adalah perjanjian perdagangan bilateral Indonesia – Jepang (IJEPA) dan Indonesia – Pakistan (IP-PTA). Artikel ini menemukan jika mitra dagang memiliki pendapatan per kapita lebih tinggi dari Indonesia maka hasil yang diharapkan adalah meningkatnya investasi asing jangka panjang dan jika pendapatan per kapita lebih rendah maka hasil yang paling diharapkan adalah surplus neraca perdagangan Indonesia. Kedua, analisis insentif sektor industri dan artikel ini menemukan bahwa perusahaan lebih menyukai insentif sisi suplai tinimbang insentif fiskal.

Kata kunci: penilaian dampak regulasi; kebijakan publik; perjanjian bilateral; perdagangan dan investasi; insentif industri; Indonesia

JEL classifications: K23; P35; O24; P45; F14

1. Introduction

The Market mechanism is incomplete. There are asymmetric information, public goods, externali-

ties and imperfect market competition such as monopoly and cartel. As it is incomplete, it needs government intervention to complete the market mechanism. However, government intervention is not unlimited, it has to be sensible and helps the market achieving its objective, the equilibrium points between consumer and producer interest. For formulating the appropriate policy, the first step that the government needs to understand that the market is naturally incomplete while interconnecting each other. The latter means that one domestic market in a country connects to another local market both

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in production and service network.

Production network means no single product can be produced by a single country and all needs to cooperate. Service network means all products start from raw materials to the final one and bought by the customer needs a supply chain from marketing to after sale service offering. Take for example a communication device like the mobile phone of which several countries produce its parts and components. After a nation built the product, then it sent it to the buyers also in more than one countries. It needs transportation service across the globe which means the service is also a multi-country network. The network requires harmonization; therefore, each domestic market needs a harmonized government intervention. Therefore, policy has to be assessed by a standard completed with same indicators, for instance, the ease of doing business, investment climate and competitiveness index. Regulation merely has to support both the market mechanism and its global natural network, not the opposite. Law has to be dynamic and sensible to any changing situation for the sake of stability of the market mechanism.

Any regulation reform starts with a need to respond the dynamic changing in society or public expectation (Parker 2006). It has to offer an alternative from the benchmark of 'do nothing' or let the situation as it is to the other regulation options. All the options come with a purpose such as to reduce social cost, increase the social benefit, increase productivity and welfare, complete market mechanism and regulation. Given its economic interest, regulation reform is primarily formulated to make sure that market works efficiently and effectively without any red tape or other regulation obstacles (Munday 2008). Regulation design and its reform has to be formulated based on the performance instead of traditional prescriptive with unclear measurement on intermediate output, output, outcome, input and compliance expectation (Smith 2008). Both processed

and performance-based regulation need indicators that are measurable therefore feasible to be compared in time wisely between with and without rules and within various alternative of them. This new framework has shifted the old paradigm of regulation reform from the unmeasurable to measurable and comparable one. Policymaker must consider multiple impacts of the socioeconomic, administrative and fiscal impact of its regulation (Staroňová 2010).

Regulatory Impact Assessment (RIA) helps policymakers to understand who will be impacted by the policy and how (OECD 2008). RIA is technically designed to make sure whether a market needs government intervention as the market does not necessarily need to be regulated and if intervention is needed then what kind of response that will fit market needs. They are many types of intervention such as tax, subsidy, supply-side incentive and others. The most factor behind why RIA is required is to complete market mechanism. The market mechanism can fail, and it needs government intervention therefore firstly RIA needs to understand the market and secondly to fix it. Regulation can even make market mechanism worst off if it fails to recognize the market mechanism thoroughly and to find its weaknesses. The implementation of RIA could cover all stages of regulation from ex-ante if there were no policy yet, in medias res if the policy is in the process of formulating to post factum of the existing policy which requires reviews. RIA is a mean or toolkit for the policy formulation purpose and not the objective because the objective is the policy aim itself (OECD 2008). RIA is useful to find the most effective and efficient regulation given benefit, cost, socioeconomic, competitiveness, and market efficiency considerations.

The heart of RIA analysis is mainly on the benefit and cost. The alternatives of policy whether to intervene or not, occur with taxation, subsidy or else depends on its benefit and cost. The best option

is in the highest net benefit among them. However, as RIA is adopted originally from legal assessment, therefore the legal basis for the choice is considered as one of the assessment factors. Furthermore, in addition to the net benefit and legal basis, RIA adopted two other assessment factors of the ability of the option to achieve the goal and its capacity to complete the market mechanism. These two latest variables are coming from market-friendly principle on how the possibilities accomplish the market mechanism and keep sensible to the market mechanism. RIA offers a so-called 'helicopter view' for the regulation as it sees all of the related factors, affected actors and covers both the short and long run time frame. RIA considers the whole society's interests not only particular or organized individual and group. This paper does not separate timeframe between short-run and long-run as it did not measure the specific value of cost and benefit analysis but preference scale of the expert respondent.

This paper attempts to assess two things using the modification of RIA: First, Indonesia's existing bilateral economic agreements (BTAs) objectives featuring Indonesia – Japan Economic Partnership Agreement (JEPA) and Indonesia – Pakistan Preferential Trade Agreement (IPPTA) and Second, the best supply-side incentives for industry. This paper adopts, adapts and modifies RIA to analyze these two substances in the context of finding the best policy options for achieving market-friendly objectives. For the BTAs, RIA is designed to see the most critical variables in Indonesia's economic negotiation either net export, investment inflows, job vacancies while for the industrial incentive, RIA is intended to find the most popular industrial incentive in Indonesia. RIA is designed to find the best formulation for Indonesia's trade, investment, and industrial incentive policy.

2. Literature Review

Regulatory Impact Assessment has been implemented by the developed countries since 1980's as part of the effort to promote and generate market-friendly policies. The essence is to aim market objective with efficient, effective and non-overlapping regulation. Sometime to make market mechanism works correctly, it needs minimum regulation or no regulation involved. It is the benchmark in RIA, and various regulation options are orderly designed to compare with the baseline. The best option is ranging from no regulation to the highest net benefit value regulation. As not all of the value of benefit and cost are measurable, therefore there is possibility of biased between the quantitative and non-quantitative quantifiable benefit cost. Thus, others indicator such as legal basis, the ability to achieve the market objective and support competitiveness as well as sensitivity analysis is needed.

Time-wise order, RIA was adopted in the 1980's when neoclassical won the debate that government regulation is designed to support market mechanism and make it perfect. The necessary condition is the market mechanism, and government regulation is the sufficient condition. Deregulation concept and its practice became very famous in the era of 1980's with H.E. President Ronald Reagan in the US and H.E. PM Margaret Thatcher in the UK who were actively promoted market mechanism and its supporting system of deregulation. To obtain comparative valuation within regulations and between with and without regulation, therefore, liberalization has to be measurable, and that is why RIA was needed. Historically US adopted RIA since 1981 followed by Denmark in 1984, UK and Australia 1985, Canada 1986, Mexico 1995, Finland and Ireland 1996, Japan and South Korea 1998¹.

¹ RIA has been used for various levels and monitored by different units in these developed countries. US implemented RIA for

Indonesia aware of RIA for the first time from seminar and training activities. There were series of this event in 2000 conducted by the ADB, in 2001 by the USAID, in 2003 by the Asia Foundation and until recently some local institutions including the LPEM FEB University of Indonesia have been involved in these related training and seminars (LPEM FEB UI Documents 2007). Some government institutions have the experience to the methodology of RIA such and co-working with the Ministry of Trade, Ministry of Finance, Ministry of National Development Planning, Cabinet Secretariat and some local governments. Indonesia needs to increase the number of ministerial and provincial government involvements including their frequency of participation for maintaining sustainability and consistency of the RIA utilization. The involvement of regional government is very critical because given decentralization era, practically the existence and influential power of regional policy are significantly affecting the success story of national government policy. For Indonesia, harmonization of policy does not only within countries but also between central and local government.

Given governance system at the parliamentary system, RIA is mostly used by the prime minister and at the presidential system at cabinet level and minister level. In general, RIA is designed to make sure the government producing sensible policy for the market which not only domestic but also between local and global market. RIA helps the state to have an appropriate system by identifying whether the policy is needed or not, and it does require various

presidential instruction and some laws and supervised by Office of Management and Budget. The UK for cabinet and monitored by Ministry of Industri and Trade while Australia for council and monitored by the independent industrial commission. Canada for Treasury Board and monitored by Treasury Board Secretariat while Denmark for cabinet and monitored by Ministry of Finance, the Netherlands for prime minister instruction and monitored by an independent commission, Mexico for presidential direction and monitored by Economic Deregulation Council and Japan for cabinet and monitored by related policy makers at ministerial level.

scenario for market mechanism from without regulation as the benchmark of multiple rules. Technically the benefit has to be higher than the cost, therefore, the policy outcome is expected to be efficient. The process of formulating this policy needs the involvement of public consultation and open discussion between academicians, think tank, business people, and government.

3. Method

This paper adopts RIA method to assess two policies in Indonesia. First is Indonesian Bilateral Trade Arrangements (BTAs). This paper implements cross tabulation analysis between BTAs significant factors of trade (Export and Import), investment (Foreign Direct Investment) and welfare (labor absorption) and RIA's significant variables of legal basis, benefit, cost, ability to achieve the market objectively and keep fair competitiveness. This cross tabulation analysis is implemented to assess current Indonesia's BTAs with Japan (Indonesia Japan Economic Partnership Agreement/IJEPA) and with Pakistan (Indonesia Pakistan Preferential Trade Arrangement). Results from this analysis are utilized to evaluate Indonesia's BTAs with higher income per capita country and lower income per capita than Indonesia's. IJEPA is the proxy for more top income economic per capita partner while IPPTA is the proxy for lower income per capita partner. Second is Indonesia's industrial incentives. There are various industrial incentives provided by the Indonesian Government. This paper adopts RIA method to figure out the most available incentives to stimulate Indonesia's manufacture sector and arranged them in order using rank level.

There are two research questions given two recent study coverages: (1) what are the ultimate objectives of trade and investment for the Indonesian existing bilateral trade agreements? and (2) What

are the best policy option incentives to enhance Indonesia's industrial competitiveness as part of supply-side inquiry?

To make market mechanism works appropriately RIA helps the government "to or not to" formulate policy, and if the government has to formulate policy, RIA guides the state to find the best formulation for the market. As RIA utilizes benefit-cost analysis, it has the advantage to be implemented not only for short run but also long for the run framework. Once benefit and cost are measurable, then each of them can be calculated in both the present and future value. The appropriate public policy was sometimes good in the long run yet unpopular for the short term as it takes time to witness its positive impacts. RIA helps the government to identify and calculate the benefit and cost of a policy which is not only for the current but also for the future, at least up to 5 years. There are two significant advantages of RIA: One, its cost-benefit can estimate the multiyear period using present and future value concept. Two, this cost-benefit analysis can connect to other policy assessment variables of legal basis, the ability to achieve the market mechanism and the ability to increase competitiveness. RIA is comprehensive as it observes all impacted shareholders of consumer, producer, government, and people considers all possible factors of legal, economy, competitiveness and potential variables of the particular policy.

Technically there are nine questions needed to be answered before RIA is implemented: (1) what is the real issue of this policy?; (2) Why does it require government intervention?; (3) Does it need regulation or just persuasion?; (4) What government level deal with this issue?; (5) Does it need new legal basis?; (6) Does benefit is higher than the cost?; (7) Does the regulation support competitiveness?; (8) Does the rule help the market to achieve its best result?; and (9) Does public hearing open to this government policy process?

RIA utilizes both the secondary and primary data set. Primary data analysis is used to explain the context of the issue briefly, and secondary data analysis is adopted to describe the hypothesis of the problem. Primary data source depends on the object of study and the references have to be related to it. Secondary data analysis follows the players: government, business people, and consumer. Among five RIA factors of legal basis, competitiveness, ability to achieve the objective of the market, the cost and benefit analysis is the most complicated factors as the benefit for one player can be the cost for another player. Take the example of decreasing import tariff rate for raw materials. This policy benefits the end producer but cost for the domestic raw material supplier. Therefore, benefit and cost analysis need to compare as the benefit in one player could be costly to the other player while the existence of non-measurable factors are given therefore benefit-cost comparison could sometimes be biased some elements in benefit and cost are not measurable.

Theoretically, RIA implements at least six steps: one is problem identification. It needs detailed figures of the problem based on all stakeholder's interests. Two is objective identification which is based on the problem identification. Three is providing options for the formulation of not to involve policy up to various alternatives of policy. Four is benefit-cost analysis on each option. Five is combination result of cost-benefit analysis and legal basis, competitiveness and market mechanism achievement. Six is sensitivity analysis for predicting the unexpected events and how to deal with them. This final step completes the previous steps. These six steps are guidance for the RIA's implementation. The significance of RIA is in its stakeholder's involvement. In the process of problem identification and choosing the option, RIA absorbs stakeholder's interest.

There are guidelines in every step of RIA. At the identification stage, 5 W and 1 H is the central prin-

ciple. There are what is the problem, why is it matter, who has been affected, where the problem exists and how the issue needs to be solved through government intervention or not and if yes what are the policy options available and which are the best for that problem. All the questions are interconnected and sequentially affecting each other.

At the objective stage, the question whether it needs government intervention or not is essential. If the government policy is necessary, then it has to be the most fitted to the market mechanism of which it must be sensitive to the market mechanism substances. RIA avoids the government from generating excessive or unnecessary policy under the minimum yet effective regulations. Sometimes significant barriers to achieving market-friendly condition are too much and overlapping regulations. Another challenge at the real stage is the aim of the policy itself. Who is going to be the winner in the market? Considering equilibrium condition, take regulation of ceiling or floor price for example. Ceiling price policy intends to support consumer at the burden of producer while the opposite for the floor price. As the producer is more organized than the consumer, then floor price seems to be more frequently succeeded than the ceiling price. Regarding number, the consumer is higher than producer but they are less organized and low access to the policymaker therefore producer interest is mostly more dominant than that of the consumer. However, given political benefits, it could be the other way around as non-organized consumer interest has been prioritized before the organized producer interest. Naturally, the interests of policy tend to be biased to the producer or organized group interests, as well as consumer interests, have given political consideration. RIA avoids the government to generate biased policy by adopting benefit and cost measurement on every available option including the non-intervention one.

At the option stage, the essential principle is putting

the most appropriate non-intervention options. The option is started from non-intervention to various policy intervention forms. Time-wise, the options can vary from not regulated yet (*ex-ante*), under formulation process (*in medias res*), ongoing regulation (*post factum*). The latter opens the possibility of repealing the regulation if non-intervention option is better than the on-going regulation. RIA can dysfunction the current rule if it was counterproductive to the market mechanism.

If the regulation had already existed, then the intervention starts with current regulation to the alternative policy options. Each option has to cover benefit and cost measurement to obtain the net benefit. In addition to it, RIA adopts legal basis, competitiveness and market mechanism achievement ability for necessary inquiries. Final inquiry is the sensitivity test analysis. The most significant challenge is predicting what will be the unpredicted factors which can affect the selected option and estimate its impacts. It is like calculating the errors while the error probability themselves are random. At this stage, two steps are needed, one in consultation with the impacted business people, policymakers, related academicians, and consumers. Two is benchmarking observation to any available experiences in the past from other countries. Public consultation and reference desk research study are two critical sources of recommendations for this purpose.

3.1. Data Collection

In implementing RIA to these studies, nine steps had been adopted; they are (1) Secondary data analysis for obtaining detailed figures of the object of the study. These figures are needed as initial guidance to obtain significant factors of the object; (2) Reference study to support secondary data analysis and the implementation of RIA; (3) The in-depth

interview with the related expert, business people, business association and government institution to obtain further detail factors; (4) Policy option formulation based on previous stages; (5) Questionnaire design is covering elements and their scale of five variables of RIA; (6) Focus Group Discussion involving government institution, firm, association and expert to fill in the questionnaire; (7) Questionnaire result cleaning and tabulation; (8) Questionnaire result analysis; and (9) Study Recommendation.

3.2. Data Analysis

The limitation of this modification is that the benefit and cost were not measured in value terms but in scale preference using the questionnaire. Therefore, the net benefit cannot be calculated and compared at dynamic context utilizing the concept of future and present value. Net benefit at this modification is displayed at preference scale of the static non-comparable level. This paper attempts to find the significant variables for each issue while their dynamic comparison is beyond this modification ability. This RIA's modification method can propose most essential variables given RIA's factors for current enforcing Indonesia's Bilateral Trade Agreements and best policy options for Indonesia's industrial incentives. The latter is another limitation of this paper as it did not provide non-intervention option given the primary hypothesis was in stimulating Indonesia's manufacture sector the government must intervene the market. The question to be answered what kind of policy that fit the market without being trapped in 'picking the winner bias'.

In analyzing Indonesia's bilateral trade agreements and industrial policy incentives, these studies adoptive variables of RIA: (1) Legal Basis; (2) The Benefit; (3) Cost; (4) Competitiveness; and (5) Objective Market Achievement Ability. These four fac-

tors refer to the option identification mapping² (The Asia Foundation 2008). All of them are being transformed into the scale level from the lowest to the highest. The positive scale was implemented for all of the variables except for the cost as it was in a negative meaning. The higher the level of cost the higher the negative impact of the policy. In this modification, RIA was formulated in the form of the scale of preference questions using the questionnaire format capturing all of the possible variables which affect the options. The questionnaire was deployed to the expert who knows the issues very well. The respondents are the related government officer, firm, association of business and academican. This study assumed that the experts naturally know the benefit and cost of each option because they are knowledgeable and expert on this issue. Net benefit comparison for each policy option was obtained from the total scale of preference of benefit and cost from all of the respondents. Their revealed preference on the scale represents the numeric range itself. This modification can merge all five variables scale of net benefit, legal basis, real achievement and competitiveness sustainability.

This RIA's modification method is useful to help us obtain the best option considering all measurable factors in RIA on all variables of choice.

4. Result and Discussion

This study adopted factors of RIA of legal basis, benefit, cost, competitiveness, and market mechanism achievement to assess BTAs variables of trade (export and import), investment (FDI Inflows from the home countries) and labor welfare (job vacancy) by doing cross-tab analysis. Method of RIA with these five categories have been formatted

²This concept refers to the Modul 4 the Asia Foundation in 2008.

into questionnaire format with scale 1 to 6 ranging from very poor (1), poor (2), normal (3), good (4), very good (5), and great (6). All of the factors are positive except for cost which naturally negative. The questionnaire was provided during FGD (Focus Group Discussion) between government, firms, and academicians. The BTAs that had been selected from those which already in force. They are the IJEPA (Indonesia Japan Economic Partnership) and the IPPTA (Indonesia Pakistan Preferential Trade Arrangement). The recap of the table consists of cross-tabulation between factors of RIA and variables of BTAs using the scale of preference of the related experts. They choose the range for each element of the available options. They are 12 relevant government institutions and five association of private sectors that responded to fill in the questionnaire. The recap is divided by trading partners. The list of questions is copied in the appendix. The complete result can be seen based on firm and government institution. Total result from firm's perspective can be seen on Table 1. Complete result from government's perspective can be seen on Table 2.

Similar to RIA application on BTAs, in this study, RIA was utilized to assess the impact of policy with scaling measurement calculated by the preference of the experts. Total of the factors is orderly arranged based on the policy rank. There some differences between the two: one, in BTAs, the respondents were coming from government and association of firm while for industrial incentives the respondents were coming from the government, association of firms and related field academicians. Two, in BTAs, the scale of the questionnaire was 6-level scale while in industrial incentives, it uses 5-level from very poor, poor, normal, good and very good. Three, if RIA on BTAs attempted to cross tabbing between RIA's factors and economic cooperation variables of in force BTAs, RIA in industrial incentives tried to choose the most preferential industrial incentive

policy measured by the RIA's factors. This questionnaire was responded by 23 experts from governments (5), private (1 association), and academicians (17). Based on educational background, 75% of them holds Ph.D. degree and 25% holds a master degree. The complete result of respondent preferences for each policy can be seen Table 3.

Every country in the world faces different layer of economic cooperation from global with non-discriminative principle to regional, bilateral, sub-regional and recently in the 21st century of mega-regional with discriminative character. As explain in the book entitled *the Future of the ASEAN Economic Integration* by Verico (2017) that non-discriminative of WTO is an ideal as well as the ultimate objective of economic cooperation, however, in reality, regional economic cooperation with discriminative character is more practical. There are pros and cons among international economists about regional economic cooperation, but both agreed that regionalism is a matter of fact. Former Director General of WTO, Pascal Lamy mentioned that WTO and regional economic organization is like curry and pepper (Lamy 2006) of which their relationship will be last forever.

Anne Krueger in 1970's and Bhagwati in 1990's (Bhagwati 1991) argued that regional economic cooperation is an ad hoc organization before the world can achieve the long-lasting non-discriminative organization of the WTO. They both suggested that regional economic body has to be a hard and closed character. Hard means legal binding and closed means the membership is limited only for countries with geographic proximity. Given these, they believe that regional economic organization would be an ad hoc or temporary organization. Nevertheless, both agreed that regional economic agencies could go along with the WTO, but the summation of regional integrations are never equal to one non-discriminative world trade cooperation.

Table 1: Application of RIA on Indonesia's In Force BTAs: Firm's Perspective Indonesia - Japan Economic Partnership (JEPA)

Indonesia – Japan Economic Partnership (JEPA)						
	Legal Basis	Benefit	Cost	Competitiveness	Market Mechanism Achievement	Total
Export	10	24	19	19	19	53
Import	13	19	18	17	17	48
FDI Inflows	14	23	19	18	21	57
Job Vacancy	13	20	17	15	20	51
Total	50	86	73	69	77	
Indonesia - Pakistan Preferential Trade Agreement (IPPTA)						
	Legal Basis	Benefit	Cost	Competitiveness	Market Mechanism Achievement	Total
Export	13	21	18	20	17	53
Import	11	16	16	17	16	44
FDI Inflows	10	17	17	18	17	45
Job Vacancy	11	15	15	16	19	46
Total	45	69	66	71	69	

Source: LPEM Research with MoT, 2015 (LPEM FEB UI Reports 2015a)

Table 2: Application of RIA on Indonesia's In Force BTAs: Government's Perspective Indonesia – Japan Economic Partnership (JEPA)

Indonesia – Japan Economic Partnership (JEPA)						
	Legal Basis	Benefit	Cost	Competitiveness	Market Mechanism Achievement	Total
Export	41	40	35	37	34	117
Import	43	36	39	35	37	112
FDI Inflows	40	37	28	33	32	114
Job Vacancy	44	38	34	35	33	116
Total	168	151	136	140	136	
Indonesia - Pakistan Preferential Trade Agreement (IPPTA)						
	Legal Basis	Benefit	Cost	Competitiveness	Market Mechanism Achievement	Total
Export	42	46	34	36	44	134
Import	41	33	31	32	36	111
FDI Inflows	40	29	29	32	31	103
Job Vacancy	41	29	33	30	29	96
Total	164	137	127	130	140	

Source: LPEM Research with MoT, 2015 (LPEM FEB UI Reports 2015a)

Besides the regional economic cooperation, the world also witnesses bilateral economic cooperation implementation named Bilateral Trade Agreements (BTAs). Over BTAs, there are also pros and cons among scholars. Those who pros argued that BTAs can be efficient cooperation as not all of the economic cooperation issues have to be solved globally or regionally and involving the Most Favored Nation (MFN) tariff rates for global and universal effective preferential tariff rates for regional. However, those who cons argued that BTAs made world economic cooperation became too complicated like a spaghetti bowl (Bhagwati 1991). Nevertheless, similar to the regional economic cooperation, BTA is also a reality that lives side by side with non-discriminative WTO and discriminative regional eco-

conomic cooperation. Furthermore, in some cases, a country needs to have BTA with the US before joining the WTO.

In terms of BTAs, Malaysia was feasible to do BTAs and much more fitted for Singapore (Menon 2006) while Thailand is more affected by the inter-regional trade and Philippines by the intra-regional trade. Therefore, Thailand gains benefit more from the ASEAN's trade and investment agreements while Philippines receives benefit more from the ASEAN's trade agreement. Further details for Indonesia, this study found that Indonesia has to improve her productivity both of the government institution by making it sure that structural reform has been running on the track and sustainable and of the market by

Table 3: Application of RIA on Indonesia's Industrial Incentive Options

Industrial's Incentive Policy (Supply-Side)	Rank	Total	Legal Basis	Benefit	Cost	Competitiveness	Market Mechanism Achievement
Supporting the RnD and Innovation for instance through matching program with the university both domestic and abroad	1	224	54	73	60	75	82
Establishing network of upstream and downstream industry	2	223	49	77	61	80	78
Establishing agroindustry, maritime and mineral based industry	3	220	58	71	59	74	76
Establishing export based industrial park	4	218	57	71	61	75	76
Establishing facilitation for education and training for vocational students	5	217	52	76	52	68	73
Easy to access to credit	6	213	49	69	46	70	71
Establishing industrial park by region (decentralization)	7	211	55	72	60	74	70
Focus on industrially based export	8	210	49	70	55	73	73
Formulating and implementing the National Working Standard (Standar Kerja Nasional Indonesia/SKKNI)	9	207	56	68	60	71	72
Revitalization of machinery and industrial equipment	10	206	58	68	65	73	72
Establishing integrated storage system	11	202	53	72	63	73	67
Supporting market expansion such as trade and FDI promotion, traditional market penetration	11	202	51	75	58	65	69
Duty free for particular capital, raw material and parts and component	13	192	52	65	50	64	61
Assisting domestic private sector to achieve Indonesia National Standard (SNI)	13	192	58	64	57	68	59
Energy subsidy i.e. electricity and transportation	15	174	63	60	70	61	60
Assisting firms to obtain patent and copyright	15	174	61	59	66	61	59
Export duty to maintain domestic supply availability (DMO)	17	169	54	61	55	56	53
Free of Luxury Product Duty	18	164	56	61	60	57	50
Import duty free for export oriented-product (BMDTP)	19	145	58	50	63	54	46
Increasing domestic tariff up to the maximum bound tariff level (MFN)	19	145	52	48	53	50	48

Source: LPEM Research with Mol, 2015 (LPEM FEB UI Reports 2015b)

increasing the number of skilled labor follows the labor and capital-augmenting technological progress. In this paper, RIA is adopted and adapted to find the most appropriate strategy given the type of trading partner country and the targeted variables of export, import, FDI inflows and labor welfare.

The previous study found that BTA is needed. The RIA analysis in this study found that if Indonesia does BTA with a country that has higher income per capita, then Indonesia needs to aim for FDI

inflows increasing and striving positive net trade balance if the trading partner has lower income per capita than Indonesia's. In this study, RIA is adopted and adapted to assess Indonesia's BTAs further. This study combines cost and benefit of RIA with the legal basis, competitiveness, and market mechanism achievement capacity to find the most appropriate strategy for Indonesia's BTAs.

In terms of industrial incentive, there are two types of government intervention for stimulating the com-

petitiveness. One is domestic market protection using both the tariff and non-tariff barriers including the agriculture sector subsidy. Two covers supply-side incentives such as machinery revitalization and free of charge of education and training. In term of types, there are various incentives options had been formulated by the Indonesian government to increase domestic industrial competitiveness both using the fiscal and non-fiscal policy. RIA found that non-fiscal incentives such as assisting the private sector in doing Research and Development collaboration with the universities both domestic and international institution as well as establishing the export oriented industrial park.

5. Conclusion

This paper revealed that government and firm in Indonesia have a unique preference on Indonesia's BTAs depending her trading partners. As for the in-force agreement, this paper showed that in IJEPA, the firm expects FDI inflows and followed by export (increasing Indonesia export to Japan) while government expect trading and followed by job vacancy (increasing job creation from Japan FDI inflows). Essentially both parties expected FDI inflows of which firm was more interested in the money while the government was more concerned about the job creation impact. These findings confirmed that on IJEPA, increasing of FDI inflows from Japan is the most expected outcome together with increasing Indonesia's export in Japan's market.

As for the IPPTA, both firm and government expected more on export (trade). The difference was in the next factor; the company expected more on job absorption while the government was more concerned about import capacity. If preferences of firm and government are combined, then it can be seen that both the government and company are very much looking forward to the increasing Indonesia's

export then followed by the rising FDI inflows and job creation. Until recently these findings confirmed that Indonesia's priority for the BTAs is on trade then followed by investment inflows and job creation. These results showed that government preference was closer to the theory rather than the firm preferences. It indicates that government has knowledge on BTAs and this is because the negotiation itself was naturally government driven.

From supply side of industrial incentive options, RIA analysis found that 'non-fiscal incentives' such as providing incentives for firm on RnD collaboration with the university, upstream and downstream industrial network, agroindustry, maritime, and mineral based industry, export-based industrial park and facilitation for vocational education and training are preferable than the 'fiscal incentives' of increasing domestic tariff, import duty free, luxury tax elimination, and export duty due to local market obligation inquiry. These findings showed that respondents have a long-term vision because of fiscal incentive is more appropriate for short-run than the long-run purpose.

Modification of RIA with scale preference can find the most appropriate variables in BTAs and policy options in industrial incentives but cannot be utilized to separate short and long-run impact because it did not use monetary value in cost and benefit analysis. Therefore, both studies were not designed to compare the present to the future value. Nevertheless, from industrial incentive options, this paper is still useful to indicate both short and long-run impacts of policy. As from BTAs, this study was able to reveal both the government and firm's preferences; therefore, it helps to figure out which of which choices that best for Indonesia's BTAs and industrial incentives.

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Appendix

1. List of Question (in Bahasa Indonesia) for the Bilateral Trade Arrangement assessment

Terkait Peraturan atau Dasar Hukum

Bagaimana dampak kerjasama bilateral Indonesia-Jepang (IJEPA) untuk kenaikan ekspor, impor, investasi jangka panjang, penyerapan lapangan kerja Indonesia dari sisi landasan hukum nasional?

Skala 1-6: 1 sangat kecil; 2 kecil; 3 normal; 4 cukup besar; 5 besar; 6 sangat besar

Variabel	Skala
Ekspor	1 2 3 4 5 6
Impor	1 2 3 4 5 6
Investasi Jangka Panjang	1 2 3 4 5 6
Penyerapan Lapangan Kerja	1 2 3 4 5 6

Terkait Manfaat

Bagaimana dampak kerjasama bilateral Indonesia-Jepang (IJEPA) untuk kenaikan ekspor, impor, investasi jangka panjang, penyerapan lapangan kerja Indonesia dari sisi manfaat nya?

Skala 1-6: 1 sangat kecil; 2 kecil; 3 normal; 4 cukup besar; 5 besar; 6 sangat besar

Variabel	Skala
Ekspor	1 2 3 4 5 6
Impor	1 2 3 4 5 6
Investasi Jangka Panjang	1 2 3 4 5 6
Penyerapan Lapangan Kerja	1 2 3 4 5 6

Terkait Biaya

Bagaimana dampak kerjasama bilateral Indonesia-Jepang (IJEPA) untuk kenaikan ekspor, impor, investasi

jangka panjang, penyerapan lapangan kerja Indonesia dari sisi biayanya?

Skala 1-6: 1 sangat kecil; 2 kecil; 3 normal; 4 cukup besar; 5 besar; 6 sangat besar

Variabel	Skala
Ekspor	1 2 3 4 5 6
Impor	1 2 3 4 5 6
Investasi Jangka Panjang	1 2 3 4 5 6
Penyerapan Lapangan Kerja	1 2 3 4 5 6

Terkait Peningkatan Daya Saing

Bagaimana dampak kerjasama bilateral Indonesia-Jepang (IJEPA) untuk kenaikan ekspor, impor, investasi jangka panjang, penyerapan lapangan kerja Indonesia dari peningkatan daya saing nasional?

Skala 1-6: 1 sangat kecil; 2 kecil; 3 normal; 4 cukup besar; 5 besar; 6 sangat besar

Variabel	Skala
Ekspor	1 2 3 4 5 6
Impor	1 2 3 4 5 6
Investasi Jangka Panjang	1 2 3 4 5 6
Penyerapan Lapangan Kerja	1 2 3 4 5 6

Terkait Kemampuan Mencapai Tujuan Pasar

Bagaimana dampak kerjasama bilateral Indonesia-Jepang (IJEPA) untuk kenaikan ekspor, impor, investasi jangka panjang, penyerapan lapangan kerja Indonesia dari peningkatan pasar?

Skala 1-6: 1 sangat kecil; 2 kecil; 3 normal; 4 cukup besar; 5 besar; 6 sangat besar

Variabel	Skala
Ekspor	1 2 3 4 5 6
Impor	1 2 3 4 5 6
Investasi Jangka Panjang	1 2 3 4 5 6
Penyerapan Lapangan Kerja	1 2 3 4 5 6

Terkait Peraturan atau Dasar Hukum

Bagaimana dampak kerjasama bilateral Indonesia-Pakistan (IPPTA) untuk kenaikan ekspor, impor, investasi jangka panjang, penyerapan lapangan kerja Indonesia dari sisi landasan hukum nasional nya?

Skala 1-6: 1 sangat kecil; 2 kecil; 3 normal; 4 cukup besar; 5 besar; 6 sangat besar

Variabel	Skala
Ekspor	1 2 3 4 5 6
Impor	1 2 3 4 5 6
Investasi Jangka Panjang	1 2 3 4 5 6
Penyerapan Lapangan Kerja	1 2 3 4 5 6

Terkait Manfaat

Bagaimana dampak kerjasama bilateral Indonesia-Pakistan (IPPTA) untuk kenaikan ekspor, impor, investasi jangka panjang, penyerapan lapangan kerja Indonesia dari sisi manfaat nya?

Skala 1-6: 1 sangat kecil; 2 kecil; 3 normal; 4 cukup besar; 5 besar; 6 sangat besar

Variabel	Skala
Ekspor	1 2 3 4 5 6
Impor	1 2 3 4 5 6
Investasi Jangka Panjang	1 2 3 4 5 6
Penyerapan Lapangan Kerja	1 2 3 4 5 6

Terkait Biaya

Bagaimana dampak kerjasama bilateral Indonesia-Pakistan (IPPTA) untuk kenaikan ekspor, impor, investasi jangka panjang, penyerapan lapangan kerja Indonesia dari sisi biayanya?

Skala 1-6: 1 sangat kecil; 2 kecil; 3 normal; 4 cukup besar; 5 besar; 6 sangat besar

Variabel	Skala
Ekspor	1 2 3 4 5 6
Impor	1 2 3 4 5 6
Investasi Jangka Panjang	1 2 3 4 5 6
Penyerapan Lapangan Kerja	1 2 3 4 5 6

Terkait Peningkatan Daya Saing

Bagaimana dampak kerjasama bilateral Indonesia-Pakistan (IPPTA) untuk kenaikan ekspor, impor, investasi jangka panjang, penyerapan lapangan kerja Indonesia dari peningkatan daya saing nasional?

Skala 1-6: 1 sangat kecil; 2 kecil; 3 normal; 4 cukup besar; 5 besar; 6 sangat besar

Variabel	Skala
Ekspor	1 2 3 4 5 6
Impor	1 2 3 4 5 6
Investasi Jangka Panjang	1 2 3 4 5 6
Penyerapan Lapangan Kerja	1 2 3 4 5 6

Terkait Kemampuan Mencapai Tujuan Pasar

Bagaimana dampak kerjasama bilateral Indonesia-Pakistan (IPPTA) untuk kenaikan ekspor, impor, investasi jangka panjang, penyerapan lapangan kerja Indonesia dari peningkatan pasar?

Skala 1-6: 1 sangat kecil; 2 kecil; 3 normal; 4 cukup besar; 5 besar; 6 sangat besar

Variabel	Skala
Ekspor	1 2 3 4 5 6
Impor	1 2 3 4 5 6
Investasi Jangka Panjang	1 2 3 4 5 6
Penyerapan Lapangan Kerja	1 2 3 4 5 6

2. List of Question (in Bahasa Indonesia) for the Industrial Incentive Option

Bagaimana dampak kebijakan insentif industri di bawah ini dilihat dari sisi aspek hukum, manfaat, biaya, daya saing nasional dan kemampuan mencapai tujuan pasar?

Skala 1-6: 1 sangat kecil; 2 kecil; 3 normal; 4 cukup besar; 5 besar; 6 sangat besar

Kebijakan Insentif Industri	Skala
Aspek Hukum : Bea Masuk Ditanggung Pemerintah (BMDTP) Manfaat : Bea Masuk Ditanggung Pemerintah (BMDTP) Biaya : Bea Masuk Ditanggung Pemerintah (BMDTP) Peningkatan Daya Saing Industri : Bea Masuk Ditanggung Pemerintah (BMDTP)	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Bea Masuk Ditanggung Pemerintah (BMDTP) Aspek Hukum : Pembebasan Bea Masuk Barang Modal, Bahan Baku dan Komponen Tertentu Manfaat : Pembebasan Bea Masuk Barang Modal, Bahan Baku dan Komponen Tertentu Biaya : Pembebasan Bea Masuk Barang Modal, Bahan Baku dan Komponen Tertentu Peningkatan Daya Saing Industri : Pembebasan Bea Masuk Barang Modal, Bahan Baku dan Komponen Tertentu	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Pembebasan Bea Masuk Barang Modal, Bahan Baku dan Komponen Tertentu Aspek Hukum : Menaikkan Tarif Sama Dengan tarif WTO (MFN) Negara Lain Manfaat : Menaikkan Tarif Sama Dengan tarif WTO (MFN) Negara Lain Biaya : Menaikkan Tarif Sama Dengan tarif WTO (MFN) Negara Lain Peningkatan Daya Saing Industri : Menaikkan Tarif Sama Dengan tarif WTO (MFN) Negara Lain	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Menaikkan Tarif Sama Dengan tarif WTO (MFN) Negara Lain Aspek Hukum : Bea Keluar untuk Stabilisasi Bahan Baku Domestik Manfaat : Bea Keluar untuk Stabilisasi Bahan Baku Domestik Biaya : Bea Keluar untuk Stabilisasi Bahan Baku Domestik Peningkatan Daya Saing Industri : Bea Keluar untuk Stabilisasi Bahan Baku Domestik	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Bea Keluar untuk Stabilisasi Bahan Baku Domestik Aspek Hukum : Pembebasan PPnBM Manfaat : Pembebasan PPnBM Biaya : Pembebasan PPnBM Peningkatan Daya Saing Industri : Pembebasan PPnBM	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Pembebasan PPnBM Aspek Hukum : Subsidi Energi seperti Transportasi untuk Industri Manfaat : Subsidi Energi seperti Transportasi untuk Industri Biaya : Subsidi Energi seperti Transportasi untuk Industri Peningkatan Daya Saing Industri : Subsidi Energi seperti Transportasi untuk Industri	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Subsidi Energi seperti Transportasi untuk Industri Aspek Hukum : Revitalisasi Mesin dan Peralatan Mesin Manfaat : Revitalisasi Mesin dan Peralatan Mesin Biaya : Revitalisasi Mesin dan Peralatan Mesin Peningkatan Daya Saing Industri : Revitalisasi Mesin dan Peralatan Mesin	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Revitalisasi Mesin dan Peralatan Mesin Aspek Hukum : Fokus pada Industri Berbasis Ekspor Manfaat : Fokus pada Industri Berbasis Ekspor Biaya : Fokus pada Industri Berbasis Ekspor Peningkatan Daya Saing Industri : Fokus pada Industri Berbasis Ekspor	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Fokus pada Industri Berbasis Ekspor Aspek Hukum : Kebijakan Kemudahan Akses Kredit Manfaat : Kebijakan Kemudahan Akses Kredit Biaya : Kebijakan Kemudahan Akses Kredit Peningkatan Daya Saing Industri : Kebijakan Kemudahan Akses Kredit	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Kebijakan Kemudahan Akses Kredit Aspek Hukum : Fasilitas Pendidikan dan Pelatihan untuk Pekerja (SMK, dll) Manfaat : Fasilitas Pendidikan dan Pelatihan untuk Pekerja (SMK, dll) Biaya : Fasilitas Pendidikan dan Pelatihan untuk Pekerja (SMK, dll) Peningkatan Daya Saing Industri : Fasilitas Pendidikan dan Pelatihan untuk Pekerja (SMK, dll)	

continued...

...continued

Kebijakan Insentif Industri	Skala
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Fasilitasi Pendidikan dan Pelatihan untuk Pekerja (SMK, dll) Aspek Hukum : Dukungan untuk RnD dan Inovasi (matching program dng Perguruan Tinggi) Manfaat : Dukungan untuk RnD dan Inovasi (matching program dng Perguruan Tinggi) Biaya : Dukungan untuk RnD dan Inovasi (matching program dng Perguruan Tinggi) Peningkatan Daya Saing Industri : Dukungan untuk RnD dan Inovasi (matching program dng Perguruan Tinggi)	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Dukungan untuk RnD dan Inovasi (matching program dng Perguruan Tinggi) Aspek Hukum : Membangun Sistem Simpan (storage) Input Manfaat : Membangun Sistem Simpan (storage) Input Biaya : Membangun Sistem Simpan (storage) Input Peningkatan Daya Saing Industri : Membangun Sistem Simpan (storage) Input	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Membangun Sistem Simpan (storage) Input Aspek Hukum : Membantu Mencapai Standar Nasional (SNI) Manfaat : Membantu Mencapai Standar Nasional (SNI) Biaya : Membantu Mencapai Standar Nasional (SNI) Peningkatan Daya Saing Industri : Membantu Mencapai Standar Nasional (SNI)	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Membantu Mencapai Standar Nasional (SNI) Aspek Hukum : Membantu Mencapai Standar Kerja Nasional SKKN) Manfaat : Membantu Mencapai Standar Kerja Nasional SKKN) Biaya : Membantu Mencapai Standar Kerja Nasional SKKN) Peningkatan Daya Saing Industri : Membantu Mencapai Standar Kerja Nasional SKKN)	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Membantu Mencapai Standar Kerja Nasional SKKN) Aspek Hukum : Membantu Industri Berbasis Pertanian, Kelautan, dan Mineral Manfaat : Membantu Industri Berbasis Pertanian, Kelautan, dan Mineral Biaya : Membantu Industri Berbasis Pertanian, Kelautan, dan Mineral Peningkatan Daya Saing Industri : Membantu Industri Berbasis Pertanian, Kelautan, dan Mineral	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Membantu Industri Berbasis Pertanian, Kelautan, dan Mineral Aspek Hukum : Membeli Paten untuk Produksi Swasta Manfaat : Membeli Paten untuk Produksi Swasta Biaya : Membeli Paten untuk Produksi Swasta Peningkatan Daya Saing Industri : Membeli Paten untuk Produksi Swasta	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Membeli Paten untuk Produksi Swasta Aspek Hukum : Membangun Sentra Industri Daerah Manfaat : Membangun Sentra Industri Daerah Biaya : Membangun Sentra Industri Daerah Peningkatan Daya Saing Industri : Membangun Sentra Industri Daerah	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Membangun Sentra Industri Daerah Aspek Hukum : Membangun Industri Hilir dan Jaringan Struktur Industri Manfaat : Membangun Industri Hilir dan Jaringan Struktur Industri Biaya : Membangun Industri Hilir dan Jaringan Struktur Industri Peningkatan Daya Saing Industri : Membangun Industri Hilir dan Jaringan Struktur Industri	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Membangun Industri Hilir dan Jaringan Struktur Industri Aspek Hukum : Membangun Kawasan Industri Berbasis Ekspor Manfaat : Membangun Kawasan Industri Berbasis Ekspor Biaya : Membangun Kawasan Industri Berbasis Ekspor Peningkatan Daya Saing Industri : Membangun Kawasan Industri Berbasis Ekspor	
Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Membangun Kawasan Industri Berbasis Ekspor Aspek Hukum : Membantu Ekspor (Promosi, Penetrasi Pasar, dll) Manfaat : Membantu Ekspor (Promosi, Penetrasi Pasar, dll) Biaya : Membantu Ekspor (Promosi, Penetrasi Pasar, dll) Peningkatan Daya Saing Industri : Membantu Ekspor (Promosi, Penetrasi Pasar dll) Kemampuan Mencapai Tujuan Utama Pembangunan Industri Nasional : Membantu Ekspor (Promosi, Penetrasi Pasar dll)	