

INTERNATIONAL A-LEVEL

ECONOMICS

Unit 4 Economic Development and the Global Economy

Source Booklet

Extract A: The output gap and change in consumer prices in Indonesia, 2015 to 2023

Extract B: Economic growth and development in Indonesia

Extract C: Will protectionist policies benefit Indonesia?

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Extract A: The output gap and change in consumer prices in Indonesia, 2015 to 2023

Year	Output gap (% of potential GDP)	Change in consumer prices (%) (12-month average)
2015	+ 0.3	6.4
2016	– 0.1	3.5
2017	– 0.5	3.8
2018	– 0.3	3.3
2019	– 0.2	2.8
2020	– 3.4	2.0
2021	– 2.8	1.6
2022	– 1.1	4.2
2023	– 0.2	4.4

Extract B: Economic growth and development in Indonesia

Indonesia is the largest economy in Southeast Asia and the tenth largest economy in the world, based on a purchasing power parity (PPP) measure of national income. Between 2000 and 2022, Indonesia's GNI per capita (PPP) increased from \$4 370 to \$14 250. Since 2000, Indonesia's economic growth has been high and stable, with an average annual rate of growth in real GDP of more than 5%. In 2020, the global pandemic caused real GDP to fall, but in 2021 Indonesia's economy recovered and real GDP increased by 3.7%.

Indonesia has made significant progress in reducing poverty but inequality has increased. There has been a small increase in average life expectancy due to improvements in health care and the reduction in poverty. Children's access to education has also improved.

Table 4 shows some of these changes.

Table 4

	2000	2021
Human Development Index (HDI)	0.595	0.705
Gini index	29.5	37.9
Poverty ratio (less than \$2.15 per day) (2017 PPP)	43.6%	3.5%
Life expectancy at birth (years)	66.43	67.57
Mean years of schooling	6.0	8.6

Now that economic growth has returned, it is expected that the standard of living of people in Indonesia will continue to improve.

Extract C: Will protectionist policies benefit Indonesia?

Indonesia is a member of the World Trade Organisation (WTO). It is also a member of the Association of Southeast Asian Nations (ASEAN), a political and economic union, and has trade agreements with many other countries. Foreign trade is around 40% of Indonesia's GDP and, on average, foreign direct investment (FDI) is about 1.5% of GDP each year.	1
Indonesia is a major exporter of commodities such as coal, oil, metals, rubber and palm oil. In 2021, exports of commodities were 23% of total exports.	5
Indonesia imposes tariffs on a variety of imports but, due to trade agreements, these tariffs are much lower than those imposed by many other less economically developed countries (LEDCs). However, Indonesia also imposes quotas and other non-tariff barriers on imports, including on many agricultural products. These protect its farming industry but increase prices for consumers.	10
Indonesia has large amounts of coal and minerals such as tin, nickel, bauxite and copper. However, in 2014, the government of Indonesia banned the export of raw nickel. It hoped that the ban would encourage transnational corporations (TNCs) to invest in capital to process nickel in Indonesia. The number of nickel-processing plants has grown from 2 before the ban to 13 in 2020 and was expected to increase to 30 by the end of 2023. In June 2023, Indonesia imposed a ban on the export of bauxite, which is used to make aluminium. It is likely that export bans will soon be imposed on other minerals, such as copper.	15
Commodities such as nickel and bauxite are important, for example in the production of electric vehicles. The Indonesian government believes that banning the export of commodities will boost manufacturing, diversify the economy, create jobs and promote development. However, when a country introduces protectionist measures there is always a risk of retaliation. Banning the export of commodities will affect other countries that rely on these commodities for their own industries. In 2013, China imported 68% of the bauxite used by its aluminium industry from Indonesia. In 2021, this had fallen to 15%. Australia and Guinea are now the two largest suppliers of bauxite to China.	20
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