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# CONFERENCE PROCEEDINGS

THE 23<sup>RD</sup> PACIFIC CONFERENCE OF THE REGIONAL SCIENCE ASSOCIATION INTERNATIONAL (RSAI)  
THE 4<sup>TH</sup> INDOONESIAN REGIONAL SCIENCE ASSOCIATION (IRSA) INSTITUTE

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Economics & Development Studies  
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Universitas Padjadjaran



Indonesian  
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PRSCO  
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suggests "access to resources" as a vital factor as well. In this paper, we analyze the determinants of the location choice of Japanese Industry investment in East Asia, with particular attention to the most appropriate method for examining the effects of market and supplier access. Furthermore, we investigate agglomeration effects in the location model. This paper is organized into five sections. The second section provides a review of the literature on location choice. In the third section, we discuss the empirical model and details of potential determinants of location choice in East Asia. We present the empirical results of the conditional logit model in the fourth section and the fifth section summarizes the conclusions of the study.

## PAR-2E: Macroeconomic Policies, Global Crisis and Recovery - Session 2

Time: Tuesday, 02/Jul/2013: 4:00pm - 6:00pm Location: Room F: Savoy 5

### A Reconsideration of Import Substitution Industrialization in Indonesia

Adhitya Wardhono, M. Abd Nasir, Muntaf El Muflihie Fain, Ciplis Gema Qor'ah, Yulia Indrawati

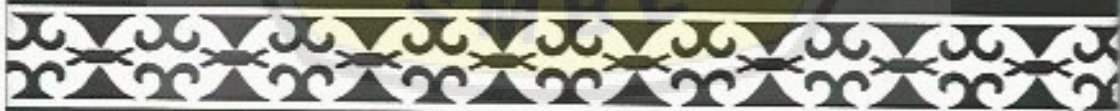
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The policies of import substitution industrialization implemented by many developing countries are characterized by three major features; that is, it is capital intensive which makes its role in employment absorption very minimal, the composition of production in the import-substitution industrialization program contains a lot of luxurious goods production for the consumption of high income people, in which the production value compared to the production value of goods needed by many people is not proportional to the number of high-income citizens, and import substitution industrialization program is highly dependent on foreign inputs. Until now, the problems of employment opportunities for work forces that grow in number are the major challenges of development. The failure of import substitution industrialization in expanding employment opportunities, among others, comes from the structural weaknesses and manpower market distortion.

This paper was aimed at determining how much the influence of the import substitution industrialization for manpower absorption in Indonesia and identifying the branches of industry that have a relatively large potential in manpower absorption which is then used as the basis for policy advising. To direct the research were some hypotheses arranged and the examination used data sample of large, medium and small industries as well as the amount of employment absorption in 1970 until 2011.

Using quantitative method of Generalized Method of Moment by Variable Instrument of Rupiah exchange rate against U.S. dollar and the consumer price index, it could be seen that in the period of 1970 to 1980 there had been no fundamental structural changes in the industrial sector because of a large number of employment absorption. However, in the years of 1990 - 2000's, there had been structural changes in import substitution industries from labor-intensive to capital-intensive, so the number of unemployment increased in Indonesia. In addition, by descriptive analysis it could be known that the suitable industries to implement import substitution industries were food and textile industries. Meanwhile, the electronics industry had not been able to be implemented because the level of consumer trust in the outcome of the domestic industry was still low.

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