

Import Restriction, Income Shock, and Local Policy Responses: Evidence from Indonesia

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Abstract

Policies fueled by nationalism and protectionism sentiments are on the rise in recent years. Unintended adverse effects of these policies have been documented in a variety of contexts, but how local governments and communities respond to those effects has been underexplored. In this paper, I study rice import restriction in Indonesia, a policy driven by those sentiments that imposed sharp increase and considerable variation in domestic rice price across provinces. I examine the effects of that policy and explore local governments' responses in mitigating its adverse effects across Indonesian villages. I combine rice price variation across years with cross-sectional variation in village rice suitability. Using a comprehensive longitudinal dataset of more than 53,000 villages spanning from 2000 to 2014, I find evidence that the policy benefited villages more suited for rice production in terms of aggregate income and nutrition. Local governments responded by directing more resources toward the more adversely affected villages. Those without a health facility were more likely to receive one from the district government. They also launched more development projects, particularly capital assistance (extensive and intensive margins). I find evidence suggesting an active role of village communities in obtaining resources. The effects on health facilities are weaker in more unequal in terms of wealth and more ethnically diverse villages. In contrast, the effects on development projects are stronger in more equal villages, which can probably be partly explained by higher level of social capital. Finally, among adversely affected villages, the presence of health facilities helps mitigate some negative income effects on health by reducing prevalence of infant mortality.

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