

The (Un)intended Consequences of Export Restrictions: Evidence from Indonesia

“Do voluntary export restrictions promote domestic economic development? We study this question in the context of Indonesia, a major producer of raw materials such as nickel and bauxite which banned the export of unprocessed mineral ores in 2014. We find that the ban triggered large investments into nickel processing and positively affected aggregate employment in nickel mining districts, even in those without nickel processing plants. In turn, the opening of a new nickel processing plant in the post-ban period had mixed effects on the local economy: while mining and manufacturing employment rose, this increase was entirely offset by a reduction in agricultural employment, which we mostly attribute to negative environmental effects of nickel processing. In contrast to nickel, the export ban had limited effects on bauxite processing, resulting in a permanent decline in bauxite production and negative effects on local employment. Finally, we document positive spillover effects from nickel processing to mining employment in districts endowed with coal, a crucial input in nickel processing. However, total employment is unaffected in those districts, likely due to crowding-out effects.”