

## ABSTRACT

The general aim of this research is to analyze the effect of trade liberalization on the productivity of Indonesia's large and medium scale manufacturing industries. Meanwhile, the specific objectives of this research are: first, to analyze the productivity of Indonesia's large and medium scale manufacturing industries. Second, analyze the channels of influence of trade liberalization on the productivity of Indonesia's large and medium scale manufacturing industries including competition channels, technology channels and scale channels. This research uses panel data from 171 large and medium scale manufacturing industries, 4-digit Standard Classification of Indonesian Business Fields (KBLI) during the 2010-2019 period. So the number of observations is 1710. To estimate productivity as measured by total factor productivity (TFP), the analytical tool used is the Levinshon Petrin semi-parametric method. Meanwhile, to estimate the path of the influence of trade liberalization on productivity, this research uses SYS GMM analysis. The results of this research are first, the elasticity of labor expenditure and the elasticity of capital have a positive and significant effect on value added. Second, the scale of return for large and medium scale manufacturing industries in 2010-2019 is decreasing return to scale. Third, high technology industry, medium technology industry and low technology industry are on a decreasing return to scale scale. Fourth, the large and medium scale manufacturing industry that has the highest average TFP is the other transportation equipment industry (KBLI 30), while the industry that has the lowest average TFP is the wood, wood goods and cork industry (KBLI 16). Fifth, the industries that have the highest average TFP are mostly high technology industries. Sixth, trade liberalization affects productivity through the scale path, although this effect does not strengthen productivity. Meanwhile, trade liberalization does not affect productivity through competition and technology. The policies that researchers recommend include: optimizing the use of inputs, training and development of the workforce, capacity management, the Business Competition Supervisory Commission needs to organize the market so that it is not concentrated in just a few market players, the policy of limiting imports of raw and auxiliary materials needs to be carefully considered. and implemented in stages, encouraging Indonesian industry in the global value chain (GVC).

**Keywords:** trade liberalization; total factor productivity; Levinshon Petrin; SYS GMM; manufacturing industry