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The Health and Price Effects of Indonesia's Trade Restrictions On Rice

Case Study

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ABSTRACT:

Indonesia is restrictive when it comes to trade policies and these restrictions affect access to rice, which is a problem as it is the staple food of the country. The existing barriers have contributed to raising the price of rice significantly, which also affects people's calorie intake due to their inability to fulfill nutritional needs of food for their families, especially the poor. The most prominent cause behind the high rice price is due to the high prioritization of domestic food producers' welfare and capacity, as mandated in various regulations following the Food Law No. 18/2012. In order to establish trade grounds, the regulating concept that prioritizes domestic food development should be adjusted to provide more affordable food.

RICE PRICES IN INDONESIA

Indonesia is among the world's largest rice consumers, as Indonesians do not consider their meal complete without a healthy portion of rice. The nation's per capita rice consumption was calculated at 97.6 kilograms in 2017 and is estimated to increase by 1.5% annually to 99.08 kilograms per capita in 2025.¹ The population of Indonesia is also on the increase. It was recorded to be 264 million people in 2018, a 1.27% increase from 2017. Thus, ensuring the availability and affordability of rice is essential for feeding the growing population.

Apart from that, Indonesia needs to consider not only the affordability, but also the diversity of the rice market. Different regions have different rice preferences. People in Java typically like to consume soft rice (*pulen*).² The same preference applies to the eastern parts of Kalimantan, Sulawesi, Nusa Tenggara, and Papua, as they mostly favor softer rice.³ While most of the regions in Indonesia generally prefer soft rice, there is also a preference for hard rice (*pera*). For example, people of North and West Sumatra and also western part of Kalimantan prefer this rice.⁴ Considering there is such a diversity in Indonesian taste buds, the rice production also needs to be increased and diversified in accordance with local consumer preferences.

However, despite the Indonesian government's claim that rice supplies are abundant and can be accessed affordably, Indonesians still struggle with high rice prices. As stipulated in the Ministry of Trade Regulation No. 57/2017, the ceiling price for rice is set at IDR 9,450/kilogram for medium-

¹Arifin, Bustanul, et. al. (2018). Modeling the Future of Indonesian Food Consumption. Jakarta. Retrieved: <https://docs.wfp.org/api/documents/WFP-0000073760/download/>

²Mardiah, Zahara, et. al. (2016). Evaluasi Mutu Beras untuk Menentukan Pola Preferensi Konsumen di Pulau Jawa. Jakarta. BBPadi. DOI: 10.21082/jpptp.v35n3.2016.p163-172 [Grain Quality Evaluation to Determine Consumer Preferences Pattern of Rice in Java Islands]

³Untari, & Widyantari, I. N. (2013). Uji Preferensi Masyarakat Lokal Terhadap Nasi dari Varietas Padi Inpari 7, Inpari 8, dan Inpara 2. Jurnal Agricola Vol. 3 No. 1 Universitas Musamus, p. 43-52. [Test of Local Community Preference for Rice from Inpari 7, Inpari 8, and Inpara 2 Rice Varieties]. BBPadi. (2016). Peta Sebaran Varietas Pulau Sulawesi 2016. Retrieved 20 August 2019, from <http://bbpadi.litbang.pertanian.go.id/index.php/basis-data/pemetaan/peta-sebaran-varietas-pulau-sulawesi-2016> [Map of 2016 Sulawesi Variety Distribution]

⁴Koesrini, & Darsani, Y. R. (2018). The Preference of Farmer on Characteristics of High Yield Rice Varieties on Tidal Swamp. Research on Agriculture Food Crops Vol. 2 No. 2 Agustus.

quality rice and IDR 12.800/kilogram for premium-quality rice. Nevertheless, the price of rice increases gradually every year. As of July 2019, rice prices in the market are still above the regulated ceiling price for medium-quality rice.⁵ This can be seen in CIPS's BuRT Index (*Indeks Bulanan Rumah Tangga* or Monthly Household Index), where domestic modern market staple food prices are compared each month with prices in neighboring countries' modern markets. Frequently, the index shows that domestic food prices are high compared to prices in neighboring countries.

RICE TRADE BARRIERS

Currently, domestic rice productivity is not high enough to keep prices stable in the face of Indonesia's ever-increasing demand. Seasonal rice productivity has fluctuated since 2013, reaching an average of only 5.19 tonnes/ha annually.⁶ While the government claims that domestic rice yields have been increasing annually and often result in domestic rice surpluses, they have continued to consistently import rice from abroad. This contradicts the claim that domestic production can meet domestic needs. Together with long supply chains and insufficient infrastructure to cover the distance of Indonesia's vast archipelago, they contribute as the main factors for high rice prices. Increasing imports would be one solution to reduce the price, as rice from abroad is cheaper and would increase competition. However, as the government prioritizes domestic production, imports are intensely restricted.

Notably, the high prices are partly exacerbated by import tariff and quantitative restrictions imposed on rice. A tariff of IDR 450/kilogram is applied to all imported rice types, as stipulated in the Ministry of Finance Regulation No. 6/2017. Furthermore, Food Law No. 18/2012 prioritizes the development of domestic food crops production. The law emphasizes on the prohibition of imports if domestic production is sufficient to fulfill the demand. Thus, imports are applicable only when domestic demand exceeds the limited supply. These regulations are intended to protect domestic producers from the international market and to prevent them from receiving low prices for their crops.

In addition to tariff and quantitative restrictions, rice imports are also complicated by a lengthy import process. The government has appointed *Badan Urusan Logistik (Bulog)*, a State-Owned Enterprise in Indonesia, as the sole importer of medium quality rice, granting them a monopoly over the commodity. Thus, the decision to import rice can only be made after an agreement has been reached through a coordination meeting among several ministries in Indonesia. Unfortunately, it takes a relatively long time to make a final decision due to prolonged issue analysis, differences in each ministry's interest, and the overestimated data dilemma. For example, to set the import quotas needed to anticipate the demand of consumption and to reserve stocks for predicted dry seasons. In the end, the rice imports still depend heavily on the President's green light to be enacted.

⁵Pusat Informasi Harga Pangan Strategis Nasional. (2019). Perkembangan Harga Pangan. Retrieved 22 August 2019 : <https://hargapangan.id/tabel-harga/pedagang-besar/daerah>. [Food Crop Price Growth]

⁶Statistics Indonesia. (2017). Agricultural Indicators. Jakarta: Badan Pusat Statistik.

Moreover, Indonesia also has other types of strict non-tariff measures for food imports, specifically on rice, where items must enter a deliberately complicated bureaucracy and technicalities before they can be presented to the domestic market. The highest number of measurements applied on rice are in the field of sanitary and phytosanitary measures (SPS),⁷ which require items to go through three different agencies for certification. Afterwards, key products may also be denied if they compete with domestic staples. As for technical barriers to trade (TBT), items must be labeled properly in Indonesian language and include a range of safety and health information in order to pass customs. In most cases, these restrictions are not clearly indicated and do not have standardized guidelines. There is also a lack of infrastructure and manpower in some agencies to handle import requests in a timely manner.⁸

EFFECTS OF RICE TRADE BARRIERS

The complex bureaucratic procedures required to obtain import licenses have caused unwanted imports delay and made imports more costly. A Center for Indonesian Policy Studies (CIPS) research concluded that *Bulog* could have saved more than USD 21 million had it been able to purchase rice when the price was lower from January 2010 until March 2017.⁹ Besides, overestimations of domestic rice production have also resulted in optimistic conclusions that domestic rice supply will meet domestic demand, and rice imports will not be necessary.¹⁰ When these conclusions prove untrue, the cost of importing rice will have risen due to inaccurate action on trade policy. The domestic rice price has been consistently higher than the international price and has continued to rise gradually since 2009. As of July 2019, the domestic rice price is two times the international price of IDR 5.923/kilogram.¹¹

One of the original purposes of food trade restriction was to protect domestic farmers. Ironically, small farmers also suffer the same fate as consumers due to the high prices, as they have trouble affording it. In fact, two-thirds of Indonesian farmers are net consumers of rice. Small farmers mostly have less than 0.25 hectares of land, which only accounts for an estimated IDR 500,000 of revenue for each farmer per month.¹²

⁷Greenville, J. 2018. "ASEAN Rice Market Integration: Findings from a feasibility study". OECD Food, Agriculture, and Fisheries Paper, No 117, OECD Publishing, Paris. DOI: <http://dx.doi.org/10.1787/8ca16e31-en>

⁸Asian Trade Center. (2019). Non-Tariff Barriers (NTBs) in ASEAN and their elimination from a business perspective. Enhanced Regional EU-ASEAN Dialogue Instrument: E-READI. APEC Business Advisory Council. (2016). Non-Tariff Barriers in Agriculture and Food Trade in APEC: Business Perspectives on Impacts and Solutions. Los Angeles: University of Southern California

⁹Respatiadi, H., Nabila, H. (2017). Rice Policy Reform: Removing Restrictions on Rice Trade in Indonesia. CIPS Policy Paper, p. 16.

¹⁰Ruslan, Kadir. (2019). Memperbaiki Data Pangan Indonesia Lewat Metode Kerangka Sampel Area. CIPS Policy Paper.

¹¹World Bank. (2019). World Bank Commodities Price Data (The Pink Sheet). Retrieved 22 August 2019, from <http://pubdocs.worldbank.org/en/561011486076393416/CMO-Historical-Data-Monthly.xlsx>.

¹²Heufers, R., Patunru, A. (2018). *Indonesia is Hungry for a Better Food Policy*. East Asia Forum.

The high rice prices eventually become the direct costs of barriers to trade, as these restrictions reduces rice availability and affordability. They also affect other products made from rice that are considered as Indonesian's every day desserts, such as *serabi* (rice pancakes) and *onde-onde* (glutinous rice balls) for which rice flour is a major ingredient.

Furthermore, trade barriers also indirectly contribute to the incidence of stunted growth in Indonesia. When rice prices are unaffordable, low-income households are forced to reduce food consumption. A study by CIPS found that an increase of IDR 1.000/kilogram in the price of rice reduces monthly household rice consumption in Sumba, East Nusa Tenggara by 0.67 kilogram which leads to an increased probability of having a stunted child by 2.44%.¹³ While the high prevalence of stunting is indeed caused by many factors, high rice prices that are exacerbated by protectionist trade policies in Indonesia is also an important factor to consider.

Reducing rice consumption could also raise the probability of more low-income households to live below the poverty line, as Statistics Indonesia measures the poverty rates through *Susenas* (The National Socio-economic Survey), which takes into account household expenditure on basic food and non-food items. Food is still a major component of the calculation, with 52 food commodities¹⁴. Ideally, a family member needs to consume 2100 kilocalories per day.¹⁵ The high rice prices could alter the composition of their food basket, as they prefer to consume less food. The inability to meet the requirement could risk 20.78% of Indonesians currently living only slightly above the national poverty line to join the 25.9 million people that are already living below the line.¹⁶

WHAT TO DO ABOUT IT?

Overturning these trade barriers is a daunting task, as the majority of Indonesians still hold a nationalist perspective for the economy. However, many also believe that the rice price in Indonesia is too high, and they support affordable food. This support has been demonstrated by the Hak MakMur (*Makanan Murah* or Affordable Food) coalition and the change.org petition with 12,500 signatures from people who also believe that it is everyone's right to have more affordable food.

Interestingly, in the beginning of 2015-2019 presidential period, President Joko Widodo launched the "Nawacita" development priority agenda, which adopts protectionist policies and promotes the self-sufficiency goal by not importing rice. Yet, at the end of 2015, Indonesia imported up to 1.5 million tonnes of rice.¹⁷ Furthermore, in 2018, the President again requested an import of 2 million tonnes of

¹³Ilman, A. S. and Wibisono, I. D. (2019). Reducing Stunting Through Trade Reforms: Analysis of Food Prices and Stunting Prevalence in Indonesia. CIPS Policy Paper.

¹⁴Statistics Indonesia. (2019). Poverty and Inequality. Retrieved 22 August 2019, from: <https://www.bps.go.id/subject/23/kemiskinan-dan-ketimpangan.html>

¹⁵Priebe, J. (2014). Official Poverty Measurement in Indonesia since 1984: A Methodological Review. Bulletin of Indonesian Economic Studies, 50(2), 185-205. DOI: 10.1080/00074918.2014.938406

¹⁶The World Bank. (2019). Indonesia Overview. Retrieved: <https://www.worldbank.org/en/country/indonesia/overview>

¹⁷Hermawan, Iwan. (2018). Kebijakan Perberasan Indonesia dan Solidaritas Pangan ASEAN. Jurnal Politica Vol. 7 No 1 May 2016, p.109. [Indonesian Rice Policy and ASEAN Food Solidarity].

rice to keep prices stable during his re-election campaign.¹⁸ Recently, after the incumbent Joko Widodo has been re-elected, he has not renewed his protectionist pledge, as he intends to focus his upcoming governance on investment growth. Presumably, this could lead to trade barriers being lifted, as investment leads to trade, and trade leads to more investment. By taking this road, Indonesia will adjust and learn from other countries who have benefited from removing trade barriers.

¹⁸Widyastuti, R. A. Y. (2017). Begini Perjalanan Polemik Impor Beras Sejak Awal 2018. <https://bisnis.tempo.co/read/1128490/begini-perjalanan-polemik-impor-beras-sejak-awal-2018/full&view=ok>. Retrieved 20 August 2019. [Here's the Polemic on Rice Import since the Beginning of 2018].