TRADE PERSPECTIVE AND AGRICULTURE POLICY PERSPECTIVE IN INDONESIA

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Abstract
Agriculture market offering with liberal global market as a consequence of the opening for the economy in Indonesia. Liberalization is due to unilateral policies and international trade agreements including both tariffs and non-tariffs. The purpose of this study is to determine Trade Perspective And Agriculture Policy Perspective In Indonesia. The method that was used in the research is library research approach, this study means the whole activity of collecting some library data, reading making a note and analyzing of the research. The results of the study explain that agricultural producing countries as developing countries are at a disadvantage or receive very little profit from international trade. Liberalization can have detrimental effects that can threaten the domestic market and the interests of other staff concerned about the welfare of producer farmers and food security. This can occur due to production errors of resource ownership, mastery of technology, economic development and the government's commitment to the focus of the agricultural sector.

Keywords: Agriculture; Liberalization; Policy

Abstrak

Kata Kunci: Kebijakan; Liberalisasi; Pertanian
INTRODUCTION

The agricultural sector still has a very important role in maintaining and improving the quality of economic development. The agricultural sector is a source of growth in national output, according to Herliana (2004) the agricultural sector contributes 19.1 percent to the Gross Domestic Product (GDP) of the entire Indonesian economic sector. Although in absolute terms it is still smaller than other sectors such as services (43.5 percent) and manufacturing (23.9 percent), but the agricultural sector is the biggest employer of 47.1 percent.

A good development policy must contain three elements, namely ecological security, livelihood security and food security. A sustainable agriculture is an agricultural system that bases itself on the sustainable use of natural resources (land, water and other biodiversity). Such agricultural practices will change in the era of globalization and free trade with the emergence of various policies issued by international bodies, such as the World Trade Organization (WTO) which greatly influences the development of agricultural practices throughout the world, including Indonesia. (Hardono, et al., 2004)

The policy on trade related intellectual property right and various other decisions concerning agriculture, will change the three basic aspects of the ecological resilience policy of an agricultural system, because such a decision will encourage the creation of a concentration of ownership of natural resources, by removing restrictions on ownership of these natural resources. It seems that the liberalization of trade in agricultural products does not make agriculture free. Instead trade liberalization would strengthen the centralism of agricultural development. In the era of free trade, when the state no longer interferes in the affairs of the development of the agricultural sector, the state does not return the power and functions of farmers to regulate their farming, but instead facilitates the transfer of control of natural resources, production systems, marketing systems and trade to global agribusiness companies. Related to the aspect of international trade, the government actually liberalizes a lot of markets for agricultural products even though the WTO rules still provide the government opportunity to protect the domestic market. Agricultural subsidies such as input subsidies have been drastically reduced by the government even though developed countries still provide subsidies of up to 300 billion USD annually to the agricultural sector (The New York Times, 2 December 2002).

Apart from the unfairness in terms of input subsidies and export subsidies, another thing that is very felt in the weak protection of our farmers is the low application of tariffs on imported agricultural products. The extraordinary protection of the agricultural sector in developed countries is demonstrated by the protection of domestic products through the application of high import tariffs. Even in a number of countries exporting rice, sugar and other agricultural products import tariffs are very high. For sugar, the European Union applies
297 percent, Japan 361 percent, while Indonesia only 30 percent. The national agricultural dimension covers aspects of availability, distribution, and consumption as well as food security. In the aspect of food availability including elements: domestic production, imports, exports, reserves and food transfers from other parties or countries. The existence of export-import elements in the aspect of food availability shows that the performance of national food security cannot be separated from the dynamics of the role of trade. The dynamics of empirical facts related to Growth Domestic Product (GDP) and production.

In addition to issues related to the availability and development of irrigated land, availability, access, and application of new high yielding varieties and location-specific technologies, agricultural production development also faces problems related to the availability of development budgets and the provision of an incentive system to encourage increased production and farmer income. The diversity of the dynamics of government investment in the agricultural sector shows that (Rusastra et al., 2005) the proportion of expenditure for irrigation development, research and development, and counseling in 2002 was only 48.20% (Rp418 million) of expenditures in 1985/96 (Rp867 million). Fertilizers that are complementary to the development of agricultural infrastructure have also experienced a significant decrease in subsidies since the mid 1980s. The decline in the government budget in infrastructure development and fertilizer subsidies has an impact on stagnation or decreasing productivity and production of agricultural commodities. The incentives received by farmers consist of two main components, namely subsidies for production facilities (fertilizer, seeds, credit and agricultural mechanization) and price protection for production. Since the mid-1980s, total government incentives have gradually declined. The decrease in production facility subsidies has an impact on increasing production costs and decreasing farmer income. (Simatupang et al. 2004).

METHODS

The method that was used in the research is library research approach, this study means the whole activity of collecting some library data, reading making a note and analyzing of the research (Zed, 2003). There are at list four characterict of library research approach, those are: first, a researcher in dealing with text, it doesn’t a knowledge of the environment. Second, library data is ready to use, means the researcher is not dealing with an environment. Third, library data commonly secondary source, means researcher get some data from the second person. it’s not from the real data of the first person.
RESULTS AND DISCUSSION

Agricultural Issues in Indonesia

The issue of agriculture, especially food crops, is not only related to consumption and production but also about the carrying capacity of a comprehensive agricultural sector. There are four aspects that are prerequisites for carrying out agricultural development (Samsul Bahri, 2004): (1) access to land ownership, (2) access to inputs and production processes, (3) access to markets and (4) access to freedom. Of the four prerequisites, it seems that what has not been implemented consistently is opening up farmers' access to land ownership and opening the space for freedom to organize and make their own choices in production. The government has always avoided these two things because they are considered to have high risks. Government policies are more focused on production and markets. The current concept of agribusiness is a concept that is suitable to look at agricultural problems because the back and forth of agriculture is not only caused by technical problems of production, but also caused by factors outside of it. In the end the problem of farmers' welfare is not only influenced by on-farm agribusiness but also by off-farm agribusiness.

Arifin (2001: 100) states that the world of agribusiness in developing countries, including in Indonesia, is generally a "people's farming system" and only a few are in the form of an "agricultural enterprise system". Although the two cannot be separated and greatly determine the overall performance of Indonesian agriculture, the differences in business scale, technological mastery, management capabilities and marketing perspective are sufficient to represent the fact that they are very different entities. The problem of agribusiness off-farm facing farmers today is the flow of globalization. The meaning of globalization is basically the diminishing boundaries of relations between one country and another in various ways, including in terms of economy, politics, migration, communication and transportation.

The parties that benefit a lot from globalization are of the opinion that globalization is a comfortable life because life between countries is almost unlimited like a village (global village), but instead the aggrieved party believes that their lives are full of losses and suffer a lot of losses so they feel experiencing as a global pillage. It seems that the peasant communities in Indonesia also cannot avoid the large changes of globalization, one of the usual ways to take is to follow and take advantage of the large flow of change to take full advantage of opportunities. The impact of globalization flows in agriculture is marked by the entry of imported agricultural production which is relatively cheap because it is produced in an efficient manner and provides large subsidies to farmers in their home countries, these products flood the domestic markets in Indonesia. Symptoms of free trade are characterized by the flow of rice, sugar, soybeans, corn, chicken pieces from several neighboring countries, even lately shrimp have come from China to Indonesia.
Some fundamental problems that are still faced by many farmers and the agricultural sector in Indonesia are the weak interlinkage between input providers, markets, the processing industry and financial institutions with our farmers. Actually, our country has tremendous agricultural potential and raw material resources, but it has not been managed efficiently. Extraordinary commodity fisheries, plantations, food crops and forests have not been professionally and efficiently managed to increase competitiveness and provide added value to the farmers involved in it.

**Encouragement and Pressure of Liberalization**

According to Chacholiades (1978) participation in international trade is free so that the participation of a country in these activities is carried out voluntarily. Internally, a country's decision to conduct international trade is a choice, so it is often said that trade should provide benefits for both parties (mutually benefited). In a closed economic system (autarky) the state can only consume as much goods and services as it produces itself. However, by conducting trade (open economic) a country has the opportunity to consume greater than its ability to produce because there are relative price differences in the production process that encourage specialization (Chacoliades, 1978; Chaves et al., 1993). The difference in relative prices arises as a result of differences in the mastery of resources from raw material production processes (resource endowment) between countries. The degree of mastery of resources and the ability to reach business scale in a joint production process will be a determinant of competitiveness and determine the direction and intensity of state participation in international markets (Susilowati, 2003).

In the opinion of some economists, trade between countries should be left freely with the minimum possible imposition of tariffs and other obstacles. This is based on the argument that freer trade will benefit both the participating countries and the world, and increase greater prosperity than no trade (Kindleberger and Lindert, 1978). However, because there are differences in the mastery of resources that support competitiveness, some other experts argue that market liberalization has the potential to have a negative impact because it encourages unfair market competition. On that basis, the view arises the importance of efforts to protect domestic production and other interests from international market pressures through the imposition of trade barriers or barriers (Abidin, 2000).

In conditions of increasing pressure to liberalize markets, the effectiveness of the application of these constraints or obstacles in trade will determine the degree of market openness. Market openness is higher if the government of a country reduces the tariff (import duty) of traded products (tariff reduction) and removes non-tariff barriers. The opposite happens if the government tends to increase tariffs and increase non-tariff barriers. Trade liberalization colors the commodity trade in the international market in the current era of
globalization, food trade is no exception. As an open economic country and participate in ratifying various economic and trade cooperation agreements regionally and globally, the pressure of liberalization through various rules of the cooperation agreement is not impossible that in the end it will clash with internal policies and threaten national interests.

Theoretical Study of Welfare Effect in Trade

Conceptually, the elimination of various forms of intervention and barriers makes the application of trade liberalization will encourage an increase in the volume of trade so that the added value created is also greater. These conditions will further spur world economic growth. To find out the benefits of trade, the general measure used is welfare (Ilham, 2003). Analysis of changes in people's welfare due to trade or the application of trade liberalization instruments can be carried out using the concept of consumer surplus and producer surplus.

Base Price and Subsidy Policy

Thomas R Dye (dalam Wayne Parsons, 2005: xi) “public policy is whatever governments choose to do or not to do” public policy as “whatever the government chooses to do or not to do. In an effort to achieve the country's goals, the government needs to take a choice of action which can be in the form of doing something or not doing something. Both, according to Dye’s definition, are public policies because of their efforts to achieve certain goals and their impact on society (Muhammad Elwan, L. O. (2020).

In addition to protective policies, trade promotion policies are also known. Promotive policies are aimed at encouraging domestic trade growth (exports). One example of promotive policies is in the agricultural sector which is closely related to aspects of food security. Basically there are two types of government policies in agriculture, namely development policy and compensating policy (Saifullah, 2001). Development policy is usually carried out by the government to encourage agricultural production with the goal to be achieved is to increase farmers' production and income. In compensating policy, the main objective of the policy is to increase farmers' incomes but with a tendency to suppress production. Development policies are mostly carried out by countries that are deficient in agricultural products, whereas compensating policies are carried out by countries that have a surplus and find it difficult to market their products.

Basic price policies and subsidy policies, such as the grain price and fertilizer subsidy policies that have been implemented in Indonesia, can be categorized as development policies. The second objective of the policy is to encourage rice production to increase, on the other hand farmers get a fair price. In the context of welfare, the impact of the enactment of base price policies and subsidies can be graphically explained as follows.

Costs and Benefits of International Trade in Agricultural Commodities

According to Indrawati (1995), Uruguay Round is the most ambitious agreement compared to previous GATT rounds because it aims to control the proliferation of all forms of
new protectionism to lead to the tendency of trade liberalization between countries. Uruguay Round is expected to increase trade to reach US $ 5 trillion in 2005 or an extra 12 percent increase in trade. It was also stated that the impact of world trade liberalization on developing countries would primarily involve products that are vital, namely the agricultural sector and textile commodities and textile products, where agricultural product tariffs would be reduced by 24 percent in developing countries and 36 percent in developed countries. While textile tariffs will be cut by 25 percent.

Protection by developed countries towards the agricultural sector through price support, direct payment, and supply management programs has caused distortions in world trade in agricultural products. Distortion occurs along with the increase in agricultural production from developed countries which results in a decrease in world prices for agricultural products. Even though the low price of agricultural products helps importing countries, the factor of low prices of agricultural products will also hit countries with net producer status.

The study of the impact of trade liberalization on agriculture in Indonesia by Erwidodo (1999) shows the following findings: First, prior to 1985 Indonesia prioritized domestic market protection policies. This policy creates a high-cost economy and more economic benefits are enjoyed by most of the recipients of the protection. In order to encourage reforms towards free trade that have been initiated since the early 1980s, the government introduced the following policies (1) simplifying customs procedures including the issuance of new customs laws, (2) reducing tariffs and levies, (3) reducing import licenses and non-tariff barriers, (4) deregulation of the distribution system, (5) deregulation of the investment regime, and (6) establishing boundaries and export procedures. One of the sectors that had fairly high protection is the food and beverage sector (food and beverage).

Second, Japan, the United States and Singapore are the three main sources of Indonesian imports. On the other hand, Indonesia's total exports to these three countries are also dominant. In 1985-1996 Indonesia's agricultural exports grew at a rate of 10.6 percent per year, at the same time the growth rate of agricultural imports grew by 15.0 percent per year. Therefore, the trade surplus of Indonesian agricultural commodities tends to decrease over time. Third, trade liberalization has the potential to expand market access for Indonesia, especially to industrialized countries. Tariff reduction in various major export markets will expand access to the Indonesian market. Barriers to global tariffs on industrial products to Indonesia will be reduced by around 42 percent, tariffs in industrialized countries will fall by an average of four percent. In Japan the average tariff fell 4.4 percent (excluding oil), the European Union dropped around 6.0 percent and the USA dropped around 6.5 percent.
Fourth, some of Indonesia’s main export products will experience significant tariff cuts in the main export markets. The tariff reductions imposed on the commodity lumber, pulp, paper and furniture by 69 percent; major mineral and metal products by 59 percent; oily seeds and fat by 40 percent; and coffee, tea, cocoa and sugar by 34 percent. Acquisition of exports from various commodities increased from 21 percent to 50 percent of the total export value. Substantive tariff reductions will also be imposed on certain commodities such as fruits and vegetables (36%), spices (35%), grains (39%) and other agricultural products (48%).

Fifth, the Uruguay Round agreement is expected to significantly increase world income and is widely distributed among developed and developing countries. Uruguay Round will have a positive impact on real wages, especially in developing countries. In line with that, Uruguay Round is expected to have a positive impact on the Indonesian economy. In this case Indonesia will benefit from both trade and income. The study results also indicate that trade deregulation with Indonesian trading partners results in not only loss of export competitiveness but also the possibility of a decline in people’s welfare.

Sixth, how much Indonesia will benefit from the implementation of trade liberalization through the Uruguay Round agreement depends also on efforts in opening Indonesia’s own market. The simulation results show that the value and volume of Indonesia’s exports could increase by 0.4 percent and 12.4 percent respectively, and the implementation of the Uruguay Round agreement as a whole is estimated to increase household income and production factors by 2.0 percent and 4 respectively , 2 percent. In the aggregate the implementation of the Uruguay Round agreement will increase net social benefits around $782 million, this value is equivalent to 0.75 percent of Indonesia’s GDP in 1992.

Erwidodo and Hadi’s study (1999) on the impact of trade liberalization on production, consumption, trade and marketing of selected commodities (rice, soybean, corn, cassava and potato) in Indonesia shows that at the macro level, in conditions before the economic crisis, trade liberalization between the country through a reduction in tariffs for imported substitution commodities will reduce prices at the level of wholesalers, producer prices, supply quantities and producer surpluses. But trade liberalization has the effect of increasing the quantity of demand, imports and consumer surpluses. The overall impact will increase the net surplus or increase the welfare of the community, but the magnitude of these changes is highly dependent on the transmission elasticity of tariffs at the wholesaler level, the transmission elasticity of the prices at large traders at producer prices, and the elasticity of supply and demand prices. The higher transmission elasticity of tariffs will have a large negative impact on producer surpluses but will also have a large positive impact on consumer surpluses and will have a total positive impact on people’s welfare.

At the farm level, the study shows, reducing tariffs will reduce prices at the producer level. Through the effects of own prices and cross prices, falling producer prices will reduce
the use of inputs such as fertilizers and labor which will reduce productivity and net farm income. As reflected in the elasticity of price transmission, the magnitude of the impact on the level of farming will depend on the marketing system of each commodity. The more efficient the marketing system, the greater the price transmission elasticity.

From a study of the impact of economic policy and trade liberalization on rice supply and demand in Indonesia 1971-2000, Sitepu (2002) shows that the paddy fields have reached the closing cultivation frontier condition, which is reaching the maximum fertile land suitable for paddy fields due to increased land use competition. While rice productivity has experienced a leveling off, as a result of the use of unbalanced fertilizers so that the production response to the price becomes inelastic. Further stated by Sitepu (2002), the policy of the basic price of grain will cause a net surplus to increase, while the policy of eliminating input price subsidies has an impact on decreasing farmers' production and income. However, the total net surplus will increase. The implementation of trade liberalization (in this case through the elimination of the role of Bulog in the procurement and distribution of grain / rice as well as the elimination of tariffs) is inefficient and not appropriate because the benefits received by consumers are smaller than the losses received by producers, so that the total net surplus is reduced. This policy alternative is detrimental to small farmers who are generally poor and will worsen the distribution of income.

Indications of the negative impact of liberalization on farmers (agriculture) also occur in developed countries like Japan. Kamiya's study (2002) states that liberalization has caused agricultural commodity prices in the Japanese domestic market which were initially very high because they are protected to continue to decline. The decline in prices resulted in the exploitation of agricultural commodities to be unprofitable. As a consequence, many agricultural areas were left uncultivated as well as fewer farmers were willing to work on them.

As previously stated, Indonesia adheres to an open economic system so that the linkages of the domestic market with the global (global) market are difficult to avoid, including for the food market. The problem is, with the growing pressure on liberalization how the government can take advantage of global market opportunities to support national food security but by avoiding the possible negative impact of liberalization on domestic food producers.

As a member of the WTO Indonesia is bound by the Agreement on Agriculture (Agreement on Agricultural, AoA) in international food trade, in addition to the SPS agreement (Agreement on Sanitary and Phytosanitary). However, the implementation of the Agricultural Agreement which includes elements of: (1) increasing market access, (2) reducing export subsidies, and (3) reducing domestic assistance, have so far been considered to prioritize increasing market access in developing countries so that commodity
prices are depressed (Palm oil), 2003. In Indonesia, import tariffs on agricultural commodities, except rice and sugar have been reduced to 0-5 percent and subsidies on agricultural inputs have been revoked since 1998. Thus, the agricultural sector in Indonesia has been liberalized and only refers to market signals (Hadi, 2003). The Erwidodo study (1999) shows that during the 1985-1996 period Indonesia’s total trade increased by around 12 percent, where the rate of increase in exports reached 11 percent and the rate of increase in imports by 13 percent. The relatively large rate of increase in imports indicates a tendency for a trade surplus to decline over that period.

Although the contribution to the formation of GDP is relatively small, trade in agricultural commodities also experienced a trade surplus. However, unlike the aggregate (national) trade balance, the commodity trade balance is still experiencing a surplus which tends to increase.

**CONCLUSIONS**

Although in theory, liberalization will produce benefits for traders, in its implementation there will be imbalances and differences. Agricultural producing countries as developing countries are generally at a disadvantage or receive very little benefit from international trade in agricultural commodities. Liberalization can have adverse impacts that can threaten the domestic market and other domestic interests concerning the welfare of producer farmers and food security. This can occur due to differences in ownership of resources, mastery of production technology, economic development and government commitment to defend the interests of the agricultural sector.

The ability of the agricultural sector to increase production is very dependent on its ability to overcome current development constraints, which include the limitations of irrigated land development, superior variety technology, the availability of development budgets, and the provision of an incentive system to encourage increased production and farmers’ incomes. Strategic policies that need to be considered include: 1) increasing government investment in the development of key infrastructure such as irrigation, research and development and counseling, 2) encouraging and facilitating private involvement in agricultural development, 3) increasing farm incentives (inputs, outputs, capital) in the spirit of correcting market failures, and 4) facilitating the development of labor-intensive agro-industries in rural areas.
REFERENCES


