

POLICY DEVELOPMENT ON AGROINDUSTRY TOWARDS THE ERA OF TRADE LIBERALIZATION

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INTRODUCTION

For the past decades, prudent macroeconomic policies and followed by deregulation packages have kept Indonesia on a path of rapid economic development. Since 1970's, our economic has growth to reach an average of 7% a year, raising GDP per capita toward the level of middle income countries while dramatically lowering the poverty level. The economic structure has diversified, as dependency on oil sector has declined and export oriented based on manufacturing producer has emerged, led by a dynamic private sector and fueled by high domestic savings and inflows of foreign direct investment. Meanwhile, macroeconomic balance has been maintained, the budget has been balanced, inflation rate relatively stable has been contained, current account deficits relatively low, and international reserves have been built up to a comfortable level. But at the same time, a number of underlying weaknesses have emerged, which have made the country vulnerable to adverse external shocks. Structural rigidities arising from regulations in domestic trade and import monopolies have impeded economic efficiency and competitiveness. At the same time, the rapid expansion of financial system since the late 1980's has left a number of banks with significant amounts of non performing loans, straining their liquidity and, in some cases, undermining their financial viability. Also the relative stability of the Rupiah during most of the 1990's together with high rates of return on domestic investment, both encouraged and facilitated high levels of overseas borrowing. Consequently, by the end of December 1997, Indonesia's external debt stood at US\$ 140 billion, about two-thirds of GDP, of which US\$ 20 billion was short term, while its debt

service has remained close to one-third of exports of goods and services.

As we are all aware, almost a year from now that Indonesia has been in economic crisis, since mid of July 1997. The exchange rate has depreciated sharply, to the levels that are difficult to justify by macroeconomic fundamentals. In almost one year, the cumulative depreciation of Rupiah has exceeded 485%, while the fall in the Jakarta Stock Exchange index is very significant. The economic situation has deteriorated since the beginning of 1998. The deep depreciation of Rupiah in recent months, following of the social and political upheavals in May, the economic situation and outlook have further worsened considerably, distribution network has been badly damage, economic activity, including exports generally disrupted, business confidence severally shaken, exchange rate substantially weakened and inflation rate is running higher (about 80% during 1998), real GDP decline by more than 10% in 1998, GNP drop to US\$ 300,- per capita or about the same level with LDC's and poverty level drop from 11% to 40%, all in all the economy faces a very serious crisis. In order to improved this situations the government seek the IMF assistance to overcome the crisis. The government has reached an agreement with the IMF that was revised several times and the last one was on June 24, 1998.

The new government is strongly committed to carry out rapid stabilization of the economy and far reaching structural reform described in the Memorandum of Economic and Financial Policies (MEFP), significant change to the macroeconomic framework and to monetary and fiscal policy – including to allow for a strengthened social safety net to cushion the escalating effects of the crisis on the poor – are now needed. The

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most urgent priority is to activate the distribution system and ensure adequate supplies of food and other necessities to all parts of the country. Toward this end BULOG has increased import target for rice in 1998/1999 from 2.8 million ton to 3.1 million ton. Food subsidies have been increased substantially this year, as part of broader effort to ensure food security for the poor. The Ministry of Industry and Trade has established a special monitoring unit to identify potential shortages of feedstuffs and distribution bottlenecks so that the government can take early correctives action.

Despite those difficulties, our commitment on international trade remained valid. We are aware that the integration and regionalization of the global economy that has overwhelmed the world to day affect the structure of the world economy substantially. Such highly fundamental economic developments have resulted in shifts in the world trade, this does not only have a relatively large impact on the countries, individually, but also on any kind of regional and multilateral cooperation. In the framework to face it, the government has made various attempts to anticipate such changes, the government has made changes in the economic, political and legal sector policy simultaneously, to create a conducive environment, and to follow meetings at multilateral as well as regional forums, such as WTO, ASEAN/AFTA, APEC, ASEM, etc. apart from bilateral cooperation to reach international commitment and increasing the growth, capability to promote the national economy.

INDONESIA'S INDUSTRIAL AND TRADE POLICY

The global market, which is identical to the liberal market, means the elimination of tariff as well as non-tariff barriers. In the framework of the AFTA 2003 free trade and APEC 2010 for the advanced economies and APEC 2020 for the developing economies. Meanwhile, Indonesia commitment in trade liberalization is still hold despite the economic problem. The government of Indonesia has a progressive program to

reduce and eliminate tariff of imported products which is follow the WTO, ASEAN/AFTA. In the past ten years, the government has developed an export-oriented industry in order to get foreign exchange, these export-oriented industry are now slow down their activities.

As we are aware, that the economic crisis which also hit several Asian countries, however it hit Indonesia more because the changing in political power, the economic crisis and political situation dragged Indonesia in more complicated situation. It also realized that since value of Rupiah is declining compare to US\$, the industry which highly depend on import raw material resulted a declined in export. It is time now that Indonesia has to produce products that depend on natural resources and produce food products to overcome the food problem. Therefore, the policy in the industry and trade sector will be more directed to industries with comparative and competitive advantages, which have their roots in the Indonesian ground, and have an extensive impact on the development of other sectors. These industries must be developed economically as well as efficiently, so that they can compete with the low import duty. On the basis of these criteria, the industries, which have priority to be developed, are:

1. Short Term Program.
The priorities for the short term program are industries which can create job opportunities in order to decrease unemployment and lay off, i.e. textile and garment, leather and leather product, semi conductor, toys sport product, etc.
2. Medium Term Program.
Resource Based Industries which resistance to the exchange rate fluctuation and other changes in international trade, e.g. agroindustry (fishery, horticulture, animal husbandry, estates crops, etc.).
3. Long Term Program.
Knowledge Based Industries which improve indigenou technology and industries which can transfer of technology. The development of these

industries is expected to increase value added, efficiency, and productivity.

The following industries are also best to develop:

- * Industries which can fulfill the domestic need, e.g. agribusiness industry as priority is food industry, the fertilizer and agricultural equipment industry, the raw materials of textile industry which can be produced efficiently.
- * Export-oriented industries these are industries that have, currently, an export markets.
- * Resource-based industries, a priority given to agroindustry. The agroindustry constitutes industries which consume in their process of production mostly raw materials which are produced by the food crop agriculture / horticulture, fishery, animal husbandry to produce intermediary products as well as end products.
- * Technology-based industries, i.e. engineering, agricultural equipment / machines / agricultural industry, capital goods, plant equipment, etc.
- * Industries which develop economic activities in regions outside Java, especially in the eastern region of Indonesia. This policy is applied to empower the potentials of the natural resources outside Java and to spread the industries.

Developments in the agroindustry sector, in particular, are increased to secure the optimal utilization of agricultural products, by giving them a high added value through the utilization, development and control of the processing technology and by a mutually profitable relationship between the producing farmers and the industry.

To promote the development and construction of the agricultural and forestry produce industries, the Department of Industry and Trade has provided several policies that are as follows:

a. Small and Medium Scale Industries.

- * Improvement of entrepreneurship capability / skill, production technique, diversification on

agroindustry products in several potential provinces;

- * Construction of small, efficient production agroindustries, such as processed fish, milk preservation and packaging;
- * Development of a partnership between nucleus-plasma and / or between Small-Medium-Large business;
- * Development of small and medium size agroindustries through labor intensive programs;
- * Application of the ISO-9000 quality management system at small and medium size agroindustry companies;
- * Development of strategic alliance with SMI in neighboring countries;
- * Modernize SMI to support the large scale industries in the country or abroad.

b. Large Scale Industries.

- * Enforcement of the structure of the agroindustry by linking continuous supply of raw material for the intermediary and the downstream industry;
- * Increase efficiency, productivity and professionalism of human resources in the aim of utilizing advanced science and technology;
- * Increase of market access by utilizing a solid business network;
- * Spreading the locations of the agricultural produce industry in all parts of the country.

The industrial policy should be link and match to trade policy to promote income of export earning and foreign exchange. In relation to domestic market, a market stabilization policy has been provided in puts to give more emphasis on the efficiency and effectiveness of the services and distribution system. A policy has also been provided on fair price forming, as it reflected from the inflation rate control. In order to be able to dominate domestic market by domestic products, the campaign of "I love Indonesian Products" is launch.

In international trade the export and import policies that are applied toward the era of globalization are:

- * Increase of exports by diversifying the products and the export destinations;
- * Export and domestic products has applied the same quality standard;
- * Reduce tariff non tariff barrier;
- * Provide import duty facility for machines, raw / auxiliary material for the construction and development of industries, including the agroindustry;
- * Control of imports with a policy which is not in conflict with international agreements;
- * Reduce the tariff of import duty on capital goods which are required by the small and medium size industries, to encourage domestic investment;
- * Provide special treatment (super highway lane) to exporters / producers by giving them with the PET (Specific Exporter / Companies) status.

EXPORT PERFORMANCE OF AGROINDUSTRY

The export performance of agroindustry products for the past five years increase on the average by 14.8% higher than the average growth of non-oil exports which grew only by 11.59% in the same period. In 1997, the export value of agroindustry products reached US\$ 4.3 billion or only around 10% of the total non-oil exports.

Several agroindustry products which have, so far, made a relatively large contribution to exports are vegetable oil, processed cocoa and processed coffee, spices and fodder, processed fish and shrimp products. Vegetable oil either in liquid or extract form (SITC412) contributes nearly 50% of the total exports of agroindustry products in 1997, with an export value of US\$ 2.1 billion, while the average export value of other agroindustry products is still below US\$ 100 million in the same period.

The export value of canned meat of processed meat has drawn very rapid by June 1993 to 1997 to an average of 70.25%, the growth of can meat of process meat nearly 5

times compare to the export of agroindustry, while the export value of processed fish, shrimp and mollusks reached US\$ 8.1 million, with an average growth of 7.5% in the same period.

Meanwhile, the export value of other tuber flour exports which consume local raw material is also relatively small, i.e. only US\$ 1.4 million, with an average export growth of 11.97% in the 1993 to 1997 period. Preserved vegetables and preserved fruits have shown a relatively good performance, with an export value of US\$ 32.4 million and US\$ 51.8 million, respectively, in 1997. However, the growth rate of their exports is still below 5% in the 1993 to 1997 period. Likewise, the export value of fruit juice and vegetable juice is also quite high, i.e. US\$ 17.4 million, with an average growth of 39.94% in the same period.

The export value of processed cocoa products actually has relatively large potential to be developed because they are supported by the abundance of raw material, i.e. local cocoa seeds. However, apparently it reached only US\$ 12.1 million in 1997, or only around 3% of the export value of cocoa seeds with the exports reaching US\$ 407.6 million in the same period. This condition is unfavorable because the added value from these commodities is still small because a major part of their exports still takes the form of primary commodities. The same condition also occurs at the coffee commodity, where exports in the form of beans are much larger than their exports in processed form.

The export value of edible processed products which covers among other things: shrimp chips (*kerupuk udang*), various types of condiments, mayonnaise, etc. reached US\$ 55.7 million in 1997, with an average growth of 15.82% for exports in the 1993 to 1997 period. The export value of shrimp chips reached US\$ 7.3 million, but their export growth continued to decline by 0.25% per annum on the average in the 1993 to 1997 period, while the export value of food derived from meat did not specifically reach US\$ 16.9 million with an average growth of 20.34% in the same period.

THE STRENGTH AND WEAKNESS OF INDONESIA'S NATURAL BASE RESOURCES

The development of agroindustry in Indonesia depends largely on the natural resources, which are available in each sub-sector, respectively, i.e. the food crop sub-sector, the estate sub-sector, the animal husbandry sub-sector, and the fishery sub-sector. Following are brief explanation of agroindustry sub-sectors which are potentials:

a. Food Crop Sub-sector.

The food crop agriculture sub-sector in Indonesia has several main commodities, i.e. 7 types of rice and second crop commodities, and the horticulture crops cover 12 types of fruit commodities and 6 types of vegetable commodities. The products of this sub-sector in 1981 to 1996 tend to increase, not only because of the increase in the harvest area, but also because of the increase in productivity as the consequence of the application of technologies and the improved agricultural facilities. With the increasingly limited land for agricultural extensification, it is very difficult to continue to increase production without increasing the post harvest technology capabilities, such as capital, cultivation of seedlings, maintenance, spraying, etc.

b. Estate Sub-sector.

The estate sub-sector has 7 types of main commodities, i.e. rubber, coconut, oil palm, coffee, cocoa, and tea. The production of the estate sub-sector also increased in the 1981-1996 period. This is caused by the increase in the area of the crops and the productivity of the commodities, respectively.

The potentials of estates as the raw material for the agroindustry are, in principle, available, however, they are not managed properly, consequently many estate companies, especially the state-owned companies, have financial problems to cope with their maintenance cost. As an example: oil palm can produce crude palm oil (CPO) and palm kernel oil (PKO). CPO will, if it is

further processed, produce *olein*, which is the raw material of cooking oil, while PKO will, after it has been processed, become raw material for the cosmetics industry. The oil palm estates in Indonesia are growing at rapid rate. This rapid growth occurs at the private estates, while state-owned estates show relatively no increase due to some limitations.

c. Animal Husbandry Sub-sector.

The animal husbandry sub-sector has enormous potential to increase the gross domestic product (GDP). Hence, the animal husbandry sub-sector is called the new source of growth in the agricultural sector in Indonesia. However, the target as an animal protein producing sub-sector to increase the income of the breeder and as a producer of foreign exchange, cannot yet be met by this sub-sector, especially in this monetary crisis situation, where the contribution of the animal husbandry sub-sector is estimated to decline drastically. This is caused by the increase in the price of fodder, and the impact of El-Nino which has resulted in an extended drought.

d. Fishery Sub-sector.

Geographically, Indonesia has a relatively large fish potential and spread. With 17,508 islands, a sea area covering 5.8 million km² and a tropical climate, any fish species can live there. The fishery business has relatively large opportunities and a sustainable fish resource potential of 6.7 million tons per annum, including the 2.3 million tons (approximately) per annum in the Indonesian Exclusive Economic Zone (IEEZ). However, the results of the latest estimates by the Scientific Stock Assessment Committee show that of these fishery resources, only 6.1 million tons of the potentials of the sustainable fishery potentials are left. The decline in the fish resources is caused by the intensive and large scale exploitations of the fish resources in various waters.

Apart from the potentials of the sea fishery, Indonesia also has resource

potentials to be utilized for pond fishery and fresh water fishery culture, and sea culture activities for mollusks, e.g. cockle shells / mussel, sea weed and other sea biota for the food industry, medicine, cosmetics and other biotechnological industries. This relatively large potential proves that we still have a relatively large opportunity to further develop the fishery agroindustry.

CONCLUSION

The mission of the development of the Small and Medium Agroindustry is to empower the economy of the people to

support the Poverty Elimination Program in all Indonesian regions, especially in facing the present monetary crisis. Therefore, the construction and development pattern of the Small and Medium Agroindustry, taking into consideration the present condition, are applied in anticipation to the future, in accordance with the intra-sector and inter-sector development plan and the regional development, so that they can play a larger role in increasing our exports, absorb our manpower, empower the people's economy, and eventually be able to strengthen the structure of the national economy.

In addition, the agroindustry whose raw materials rely, almost all, on local products, has not been affected by the monetary crisis.