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GPO Box 1563 Canberra 2601
telephone +61 2 6272 2000
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editor andrew wright
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abare

> neil andrews > +61 2 6272 2242 > nandrews@abare.gov.au

indonesian agriculture

implications of import regulations for Australian agricultural exports

russell bond, david barrett and jammie penm

- ***While tariffs on many agricultural imports are low in Indonesia, import regulations are in place that either prohibit the import of some products or increase the cost of exporting to Indonesia.***
- ***Sustained economic growth and industrialisation in Indonesia have led to an increase in competition for domestic resources and a decline in the contribution of agriculture to gross domestic product. If Indonesia's import regulations were reformed, market access for imports would improve, as would the availability of food varieties for domestic consumers.***
- ***Because of its geographic proximity, Australia is well placed to provide benefits to both Indonesia and Australia from advancing bilateral agricultural trade.***

economic growth and agriculture's role in the economy

Indonesia has emerged as a growing and important market for Australian agricultural commodities. In 2005, Australia was the leading agricultural exporting country to Indonesia, supplying just over US$1 billion of agricultural commodities.

Economic growth and industrialisation in Indonesia have led to an increase in competition for domestic resources. As in many other developing countries in Asia, this has resulted in a reduction in the contribution of agriculture to gross domestic product. Agriculture's share of Indonesia's economy declined from around 49 per cent in 1970 to just over 13 per cent in 2005.

Sustained income growth in Indonesia has resulted in a significant increase in food demand. For the most important staple food – rice – there have been restrictive import controls in place since 2004 (imports are permitted on an ad hoc and as needed basis – for example, during extreme circumstances such as drought). The growth in domestic rice production has slowed since the mid-1990s, as the availability of arable land has become a constraint and productivity growth has slowed. As a result, there has been a gradual increase in imports of other staples, such as wheat, to meet increasing domestic food consumption.

Growth in per person income has also led to an increase in demand for other food products, especially vegetables, fruit, sugar, beef, dairy products, poultry and seafood. While Indonesia is largely self sufficient in fruit, poultry and seafood, imports have become an increasingly important source of vegetables, sugar, beef and dairy products.

Indonesia's government has pursued policies that promote agricultural production and provide protection to farmers. The measures used to protect the agriculture sector include both tariff and nontariff barriers, especially import regulations, and have resulted in some domestic price for agricultural products being well above prevailing international prices. In recent years, Indonesia has pursued regional trade agreements as a strategy for gradually reducing protection and increasing access to the markets of trading partners. Indonesia is currently a member of the ASEAN Free Trade Agreement (FTA), China–ASEAN FTA and Korea–ASEAN 9 FTA, with several others under negotiation. A Japan–Indonesia Economic Partnership Agreement was finalised in August 2007.

Indonesia's continued high economic growth and industrialisation is likely to place considerable pressure on its policy of achieving food self sufficiency. With competitive pressure for resources from nonagriculture sectors, there is likely to be limited capacity to increase agricultural production. In broad terms, freer trade practices in Indonesia could lead to cheaper domestic prices for agricultural products and more efficient allocation of domestic resources to sustain high economic growth.

Indonesia's food production

agricultural policies aim to achieve self sufficiency

Over the 1980s and the early 1990s, agricultural production in Indonesia was stimulated through the subsidisation of key inputs and as the land devoted to agricultural production increased. Commodity prices were maintained at artificially high levels through the state owned enterprise, Bulog, which operated a buffer stock scheme and was the sole importer of rice, wheat and other agricultural commodities. Consequently, high self sufficiency for rice and sugar was achieved for most of this period.

As a condition of the IMF's support package during the financial downturn of 1997-98, Bulog's import rights over all products except rice were rescinded. However, while the sugar market was liberalised for a time, it has been heavily re-regulated since 2002. Import regulations remain an important feature of Indonesia's self sufficiency policy.

declining agricultural productivity

Agricultural production in Indonesia, in volume terms, grew by 4 per cent a year between 1968 and 1992. Since then, however, growth has slowed to an average rate of 1 per cent a year. Over the period 1968–92, growth in agricultural productivity is estimated to have averaged 2.6 per cent a year. Between 1992 and 2000, however, productivity contracted by an average 0.1 per cent a year (Fuglie 2004).

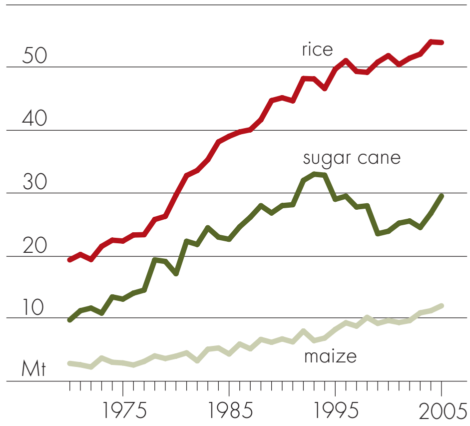
A number of factors contributed to the decline in productivity in the latter period. First, there were significant declines in both research and development and infrastructure expenditure for agriculture. Second, government subsidies on farm inputs, such as fertilisers and pesticides, were significantly reduced, especially in the period after the Asian financial downturn. Third, industrialisation and urbanisation led to increased competition for land and forced agricultural production onto marginal land. Fourth, lack of economies of scale proved to be a barrier for agricultural productivity. Around 75 per cent of farms in Indonesia are still less than one hectare in size (Suryhadi et al. 2006).

rice is the most important staple

Rice is by far the most important agricultural commodity in Indonesia. In 2005, rice made up around 23 per cent of total agricultural output in volume terms. Cassava and maize are the other two principal food crops in Indonesia, accounting for a further 13 per cent of total agricultural output in volume terms. Other important agricultural products include sugar cane, palm oil and rubber, with a total share of 19 per cent. Livestock products account for about 5 per cent of agricultural output in volume terms, with poultry being the largest component.

Rice production rose relatively rapidly before the mid-1990s (figure A; FAO 2007). Since then, rice production has increased more slowly. This slowdown mainly reflects the limited availability of land and slow growth in yields. In line with the decline in total agricultural productivity, productivity in the rice industry declined by an average of 0.2 per cent a year over the period 1998–2001 (Indonesian Commercial Newsletter 2002).

fig A **production of selected products**
Indonesia



maize production is increasing ... on marginal lands

Maize production increased gradually over the 1980s and early 1990s before slowing in the latter half of the 1990s. Production of maize was affected by the Asian financial downturn as the demand for feed from the poultry industry declined. Production remained relatively stable during the early 2000s but has been increasing since 2003.

The majority of maize is grown on small, unirrigated farms with poor soil fertility and low productivity. Maize is grown largely on marginal land because of government support for rice. The support for rice production has increased competition for land, and expanding rice production has pushed the production of secondary crops, including maize, to less productive areas (Swastika 2004).

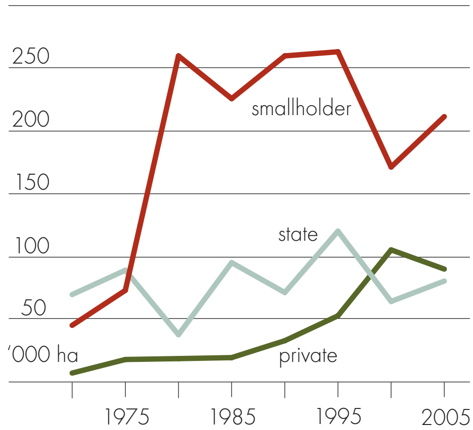
sugar production supported by self sufficiency goal

Indonesia's sugar industry has been supported under the goal of self sufficiency. Land devoted to sugar production increased in the 1970s and the early 1980s, resulting in an increase in production (figure B; Ministry of Agriculture 2006). The majority of the rise in production was the result of an increasing number of small farms growing sugar cane.

Approximately 60 per cent of Indonesia's sugar production occurs on the island of Java. Issues facing Indonesia's sugar industry, particularly in Java, include:

- around 40 per cent of sugar cane in Java is grown on wet land, where planting and cultivating cane is difficult, keeping yields low
- the average size of sugar cane farms in Java is less than half a hectare, limiting economies of scale
- management practices on farms are inefficient, resulting in low productivity (Stapleton 2006) – for example, in Java, sugar cane is harvested

fig B **area planted to sugar cane**
Indonesia



up to twelve times before replanting, while in major sugar producing countries, it is harvested only up to four or five times
» sugar mills are small and use outdated technology, resulting in inefficiencies.

growth in poultry production leads to higher feed demand

Poultry is the major livestock industry in Indonesia. Output increased rapidly from the 1960s to the mid-1990s. However, the industry was severely affected by the Asian financial downturn in 1997-98, as consumers switched from poultry products to cheaper sources of protein, such as tempeh and tofu (Hartono 1999). Since then, poultry output has resumed rapid growth, although outbreaks of avian influenza have the potential to adversely affect the industry.

Maize is the principal feed used in poultry production in Indonesia. Between 1971 and 2001, consumption of maize increased by an average of 6.4 per cent a year (Swastika 2004). The strong performance of the poultry industry has translated into significant growth in the consumption of maize.

food consumption in Indonesia

food consumption rising in response to income and population growth

Apart from a period in the mid-1980s and during the Asian financial downturn, Indonesia has achieved impressive economic growth since the 1970s. On average, economic growth was around 6 per cent a year between 1970 and 2005.

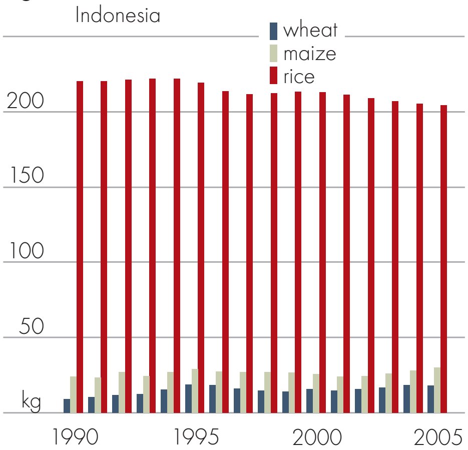
In response to rising incomes and the influence of western style foods, Indonesian diets have been changing. While rice, vegetables and seafood remain staples, consumers have moved toward a wider variety of foods. In particular, there have been increases in consumption of wheat based products, fruit and livestock products, including beef and dairy products.

In Indonesia, consumption of rice per person declined between 1990 and 2005 (figure C; FAO 2007). This is in contrast to the increase in consumption of many other food products, including seafood, beef, poultry, fruit and vegetables. As a result, the contribution of rice to per person daily calorie intake declined from 55 per cent in 1990 to 48 per cent in 2005.

Between 1990 and 2005, wheat consumption per person nearly doubled, from just over 9 kilograms in 1990 to 18 kilograms in 2005. A large part of this growth occurred before the onset of the Asian financial downturn in 1997-98.

As a major protein source, poultry meat is widely consumed in Indonesia (figure D; FAO 2007). Between 1990 and 2005, poultry meat consumption per person more than doubled, from 3 kilograms to around 6 kilograms. Consumption of bovine meat also increased over the same period, from 1.6 kilograms to 2.4 kilograms per person. Mutton and goat meat consumption rose marginally, while consumption of pig meat fell.

fig C **cereal consumption per person**
Indonesia



In general, changes in the pattern of food consumption in Indonesia have been consistent with the trends observed in many developing countries experiencing rapid growth, especially in Asia. As per person income rises, consumption of starchy staples tends to decline, whereas consumption of livestock products and seafood increases gradually (Mitchell, Ingco and Duncan 1997; Lee and Kennedy 2006).

Indonesia's imports of agricultural products

In the 1980s, when agricultural production in Indonesia increased significantly, self sufficiency was achieved in rice and sugar, and imports of many agricultural products were relatively low. Since the early 1990s, lower growth of agricultural production and higher domestic demand have resulted in an increase in imports.

By 2005, Indonesia's annual imports of wheat, sugar and cotton were around US$800 million, US$570 million and US$575 million respectively (figure E; UN Statistical Division 2007). Wheat imports, in value terms, accounted for 14 per cent of Indonesia's total agricultural imports. Over the period 1995–2005, the real value of dairy and sugar imports almost doubled. In contrast, rice imports were reduced significantly, reflecting Indonesia's restrictive import policy.

Australia and the United States are the major suppliers to Indonesia

Australia, with its geographic proximity and efficient production systems, is the largest supplier of agricultural commodities to Indonesia (figure F; UN Statistical Division 2007). Major imports from Australia include wheat, live cattle, dairy products, cotton, sugar and fruit.

The United States is Indonesia's second largest source of agricultural imports, with imports valued at around US$850 million in 2005 (around 15 per cent of Indonesia's total agricultural imports). Major agricultural imports from the United States include cotton, soybean products, animal feed, dairy products and vegetables.

Thailand is a major supplier of rice and fruit to Indonesia, accounting for around 9 per cent of Indonesia's agricultural imports. China supplies around 6 per cent of Indonesia's agricultural imports, and is the major supplier of fruit and vegetables.

fig D **meat consumption per person**
Indonesia

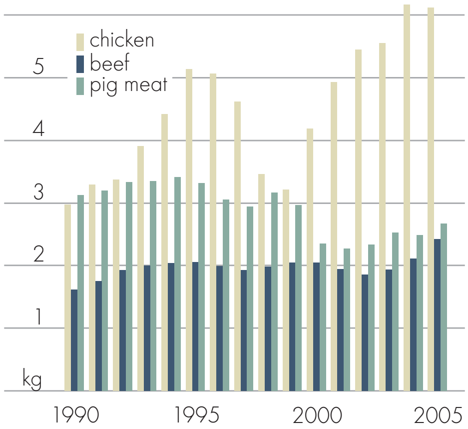


fig E **major agricultural imports**
Indonesia

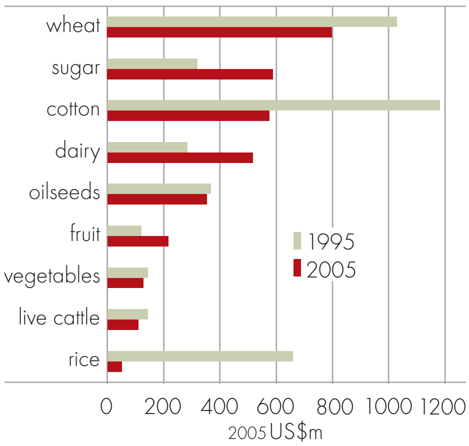
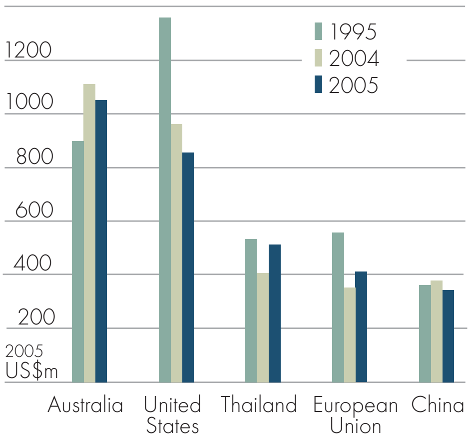


fig F **agricultural imports, by source**
Indonesia



Australia's principal exports to Indonesia

wheat

Australia is the major supplier of wheat to Indonesia. In 2005, Indonesia imported around 2.4 million tonnes of wheat from Australia, valued at US$445 million and accounting for 56 per cent of the value of Indonesia's wheat imports (tables 1 and 2). Canada is Australia's main competitor in the Indonesian market, with Indonesia's imports of wheat from Canada valued at US$165 million in 2005.

Australia's exports of wheat to Indonesia have grown significantly over recent years, with the volume almost doubling between 1995 and 2005 (table 1). Indonesia does not produce wheat domestically because climatic conditions are unsuited to growing wheat.

Given economic and population growth in Indonesia, it is likely that Indonesia's wheat imports, by volume, will continue to increase. In particular, imports from Australia are expected to remain an important component of Indonesian wheat consumption. Australian wheat is considered to be of better colour than wheat from other countries for the production of noodles, which gives Australian wheat a competitive advantage over wheat from other sources (Landline 2003).

1 Australian exports to Indonesia
selected commodities

	1995	2005
	kt	kt
wheat	1 228	2 440
sugar	40	270
cotton	82	137
live animals	89	95
dairy	23	65
fruits	26	17
vegetables	10	16

Source: UN Statistical Division (2007).

cotton

Australia is the second largest supplier of cotton to Indonesia (behind the United States). In 2005, Indonesian imports of Australian cotton were valued at around US$122 million. This compares with cotton imports of around US$225 million from the United States. Because of its relatively cheap labour, Indonesia is the world's ninth largest exporter of clothes and textiles and the largest in south east Asia.

The outlook for Australian cotton exports to Indonesia depends on the performance of the Indonesian textile industry. On world markets, Indonesia is facing increasing competition from China, the world's largest textile exporter.

live animals and processed meat

Australia is the major supplier of live animals (mostly live cattle) to Indonesia. In 2005, Indonesia imported live cattle from Australia valued at US$110 million. Australia's position as the dominant supplier of live cattle largely reflects its proximity to Indonesia, the ability of Australian cattle to acclimatise to tropical conditions in Indonesia, and Australia's disease free status. Indonesian demand for cattle from Australia has also been enhanced by Indonesia's restrictions on cheaper frozen buffalo meat from India and frozen beef from Brazil, to avoid any risk of an incursion of foot and mouth disease (Martin, Mellor and Hooper 2007).

Indonesia's trade in live cattle has been driven by the need to ensure supplies of fresh meat in regional areas where refrigeration is limited (Martin et al. 2007). Indonesia imports a relatively small amount of beef compared with its live animal imports. Australia is the second largest supplier of beef to Indonesia (behind New Zealand). In 2005, imports from Australia were valued at around US$19 million, accounting for around 44 per cent of Indonesia's total beef imports.

dairy products

Indonesia produces a relatively small amount of milk, around 635 000 tonnes a year. This compares with annual production of over 10 million tonnes each in Australia and New Zealand.

Indonesia is 35 per cent self sufficient in milk and dairy products and relies on imports to meet its domestic consumption. Australia is the largest supplier of dairy products to Indonesia (valued at around US$126 million in 2005), followed by New Zealand (US$107 million) and the European Union (US$102 million). Australia's main dairy product exports to Indonesia are skim milk powder and whole milk powder, and then cheese, whey and butter.

Given the current low consumption of milk and dairy products in Indonesia relative to other Asian countries, there is potential for further increases in consumption and higher imports over the longer term.

sugar

Australia is the second largest supplier of sugar to Indonesia (behind Thailand). In 2005, Indonesia imported US$324 million worth of sugar from Thailand and US$74 million from Australia. Imports from both countries have increased in recent years as a result of growing sugar consumption in Indonesia. Indonesia imported almost 2 million tonnes of raw sugar in 2005, compared with imports of over 500 000 tonnes in 1995 (UN Statistical Database 2007b).

Without substantial improvements in the productivity of Indonesia's sugar industry, import demand for sugar in Indonesia is likely to continue to rise.

fruit and vegetables

China is the largest supplier of fruit and vegetables to Indonesia. Some ASEAN countries, including Thailand and Myanmar, are also prominent exporters. Australia is a major supplier of fruit, including citrus, apples, pears and grapes, and vegetables, including potatoes and onions, to Indonesia. In 2005, Australia exported a total of around 33 000 tonnes of fruit and vegetables to Indonesia. Imports of Australian fruit and vegetables tend to supply the top end of the Indonesian market, such as hotels and restaurants. Australia is in a good position to benefit from opportuni-

2 agricultural imports, by source
Indonesia, in 2005 US dollars

	1995 US$m	2005 US$m	market share 2005 %
total agricultural imports	6 392	5 575	
wheat			
Australia	309	445	56
Canada	238	165	21
Argentina	130	74	9
Ukraine	na	58	7
UnitedStates	161	25	3
cotton			
UnitedStates	520	225	39
Australia	248	122	21
Brazil	14	51	9
SouthAfrica	na	14	2
Pakistan	29	12	2
dairy			
Australia	56	126	24
NewZealand	52	107	21
EuropeanUnion	116	102	20
UnitedStates	15	62	12
oilseeds			
UnitedStates	155	256	73
sugar			
Thailand	150	324	55
Australia	21	74	13
SouthAfrica	na	32	5
Philippines	na	13	2
fruit			
China	16	99	46
UnitedStates	37	39	18
Thailand	6	34	15
Australia	27	12	6
livecattle			
Australia	143	110	100
beefmeat			
NewZealand	10	23	53
Australia	7	19	44
vegetables			
China	90	72	33
Myanmar	21	7	3
Australia	7	7	3
Philippines	6	6	3
rice			
Thailand	239	32	64
VietNam	112	12	24

na Not available.
Source: UN Statistical Division (2007).

3 bound and applied tariffs
Indonesia (percentages unless otherwise stated)

	bound %	applied %
cereals		
wheat (excludes meslin)	27	0
rice	160	Rp 450/kg
cotton		
cotton neither carded nor combed	27	0
live animals		
live bovine animals (excludes buffaloes)	40	0
dairy products		
milk and cream		
– not concentrated or sweetened	40	5
– concentrated or sweetened **a**	210	5
yogurt	40	10
buttermilk	210	5
butter	40	5
fats and oils derived from milk	210	5
cheese	40	5
natural honey	40	5
wheat flour	27	5
malt (excludes roasted)	40	5
meat of bovine animals		
fresh of chilled bovine meat, boneless	50	5
frozen meat of bovine animals, boneless	50	5
frozen edible bovine offals	40	5
sheep		
frozen cuts of sheep	50	5
sugar		
raw cane sugar	95	Rp 550/kg
industrial grade and white sugar	95	Rp 790/kg
citrus fruit fresh or dried		
oranges	50	5
mandarins **b**	50	25
lemons	40	5
fresh fruit		
grapes	40	5
apples	50	5
pears and quinces	40	5
vegetables, dried leguminous		
fresh or chilled potatoes **b**	50	25
fresh or chilled onions	40	5
fresh or chilled shallots **b**	40	25
dried, shelled broad beans	40	5
fruit juices		
orange juice	60	5 or 10
apple juice	40	5 or 10

a Milk and cream concentrated, other products are subject to a tariff of 10 per cent. **b** 25 per cent tariffs on horticultural products to be cut to 10 per cent in 2010.
Sources: Ministry of Finance (2006); WTO (2006).

ties that may arise from Indonesia's growing tourist industry (Austrade 2007).

trade policy in Indonesia

The tariffs reported in this section refer to bound and applied tariffs. 'Bound' (or 'most favoured nation') tariffs are commitments made by World Trade Organisation members and are the maximum allowable tariffs that a member country may levy on imports. 'Applied' tariffs are the actual levy used.

tariffs on agricultural imports

The most common bound tariff on agricultural imports is 40 per cent but bound tariffs range from 27 per cent to 210 per cent (table 3). The highest bound tariff of 210 per cent is on imports of milk and cream in solid form, buttermilk and fats and oils derived from milk. Imports of milled rice fetch a bound tariff of 160 per cent, while that for sugar is 95 per cent. The bound tariff for fresh or frozen meat of bovine animals, frozen cuts of sheep, fresh or dried oranges and mandarins, and fresh or chilled potatoes is 50 per cent.

Applied tariffs are generally lower than bound tariffs and the most common level is 5 per cent except for imports of certain fruit and vegetables, which are subject to a 25 per cent tariff. Rice imports, when permitted, are taxed at 450 rupiah a kilogram, equivalent to a 30 per cent *ad valorem* tariff rate (USTR 2007). Similarly, imports of raw cane sugar are taxed at 550 rupiah a kilogram, and white and industrial grade sugar at 790 rupiah a kilogram. Stapleton (2006) estimates the equivalent *ad valorem* tariff rate of the specific tariffs for sugar to range from 30 to 35 per cent.

import regulations can affect Australia's agricultural exports

While tariffs on many agricultural imports are low, import regulations are in place for some commodities that either prohibit the import of some products or increase the cost of exporting to Indonesia. The majority of these regulations are claimed to be required to maintain health and environmental standards. There is often uncertainty over the specific import requirements for some products or inconsistency with their application throughout Indonesia.

Indonesia's tariff and import regulations on agricultural products

wheat

Wheat imports in Indonesia have been deregulated. Bulog ceased to be the sole wheat importer after the Asian financial downturn. Bogasari flour mills have become the largest importer, producing around 75 per cent of Indonesia's wheat flour requirements. Durum and regular wheat are not subject to a tariff, while meslin (a mixture of wheat and other grains) is subject to a 5 per cent tariff. Wheat and meslin flour are both subject to a 5 per cent tariff.

cotton

Cotton imports are not subject to trade regulations because of the importance of cotton as an input into the textile and garment manufacturing industry. Indonesia is considering a proposal that requires all imports containing genetically modified products to be labelled. This requirement is yet to be implemented (ASEAN 2007). This development may be of relevance to Australian cotton because 80 per cent of cotton grown in Australia is of GM varieties. At this stage, it is unclear whether this labelling requirement will have any impact on Australian cotton exports to Indonesia.

live animals and processed meat

There is no tariff on imports of live animals, and the tariff on processed meat products is 5 per cent. A variety of meat offal products are prohibited imports into Indonesia. There has been considerable uncertainty over Indonesia's approach to developing and implementing these regulations. It is expected that such a policy would be supported by a scientific risk assessment, and that the same requirements would be applied to offals produced domestically.

Processed meat products are also subject to trade regulations. Importers of meat products must obtain a 'letter of recommendation' from Indonesia's government.

Indonesian customs officials use a schedule of arbitrary 'check prices' rather than the actual transaction price of imported food products when assessing tariffs. The practice of check prices aims to control illegal behaviour such as dumping inferior goods and to minimise underinvoicing, whereby local importers deliberately underreport the value of imports to evade a portion of *ad valorem* taxes. However, there is little transparency on how check prices are determined. Check prices are sometimes well above the prevailing international prices (USTR 2007).

dairy products

Despite the very high bound tariff rates on dairy products, applied rates on most products are 5 per cent. The exceptions include some processed products, such as yogurt, and some concentrated milk and cream, which are subject to a higher applied tariff of 10 per cent. Dairy imports face a number of regulations in Indonesia. Finished milk products can only be imported by companies appointed by Indonesia's government.

All dairy products imported by Indonesia must have their label pre-approved. This requirement is applied to both consumer packs and bulk products for further processing. It results in additional administrative requirements, increased costs and reduced flexibility for bulk products that may ultimately be destined for a variety of uses. Indonesia also requires that all imports of dairy products be accompanied by original halal certificates, a requirement that could affect exporters' ability to ship products to Indonesia.

Imports of dairy products, like all food imports, are tested by the Agency for Drug and Food Control (Badan Pengawas Obat dan Makanan), a process that is reported to be complex, time consuming and costly (USTR 2007). Tests require foreign suppliers to provide detailed information on ingredients and processing that may infringe on proprietary business information. The testing fees are expensive, ranging from US$120 to US$1200 per product, and are borne by foreign food suppliers.

sugar

Apart from high tariffs, sugar imports are also regulated by import licensing requirements, which act as an implicit import barrier.

In 2002, the Indonesian Ministry of Industry and Trade implemented an import licensing scheme that limited imports of industrial grade sugar and white sugar. Under the scheme, licences for imports of white sugar were reallocated from 800 private importers to five importers. Three of them are state owned sugar plantations and mills, which account for more than 60 per cent of domestic white sugar production. The remaining two importers are state owned trading firms (Stapleton 2006). With their exclusive licences, these institutions can import sugar at low prices and sell it at higher prices in the domestic market.

Sugar import licences are not tradable or transferable, thereby preventing potential sugar importers from participating in the market. Allocating nontransferable licences to state owned enterprises provides them with exclusive import rights, and protects them from competition from other sugar trading institutions.

In addition, the Ministry of Industry and Trade allows sugar imports for only a four month period outside Indonesia's milling season, provided that the Indonesian Sugar Council considers domestic production as inadequate (Stapleton 2006).

fruit and vegetables

Applied tariffs on fruit and vegetables are generally 5 per cent, with some exceptions. Mangoes and mandarins are subject to a 25 per cent tariff, while shallots and potatoes face a 25 per cent tariff. For fruit and vegetables from ASEAN countries and China, however, there are few tariffs because of the preferential tariff agreements among these countries. Such arrangements have promoted a strong presence of fruit and vegetables from ASEAN countries and China in Indonesia (ASEAN 2007).

In April 2007, Indonesia proposed regulations for food safety control for fresh foods of plant origin including fruits, vegetables and grains. The proposed regulations, if implemented, would result in excessive requirements for testing and certification of all plant products.

Indonesia's involvement in free trade agreements

Indonesia, through its membership of ASEAN, is party to a number of free trade agreements, such as the ASEAN FTA, China–ASEAN FTA, Korea–ASEAN 9 FTA as well as the Japan–ASEAN, India–ASEAN, Australia–New Zealand–ASEAN and EU–ASEAN FTAs that are currently under negotiation. In August 2007, Indonesia also finalised an Economic Partnership Agreement with Japan (table 4).

Agreements between countries that reduce the trade barriers faced by agricultural products assist agricultural exporters in those countries. The lower tariff and nontariff barriers that certain agricultural exports from ASEAN nations and China face because of agreements with Indonesia put products from these countries at an advantage compared with products from countries without such agreements. As noted above, talks have commenced on an Australia–New Zealand–ASEAN FTA. Australia, as the largest exporter of agricultural products to Indonesia, can be expected to gain from such an agreement; however, the size of the gain will depend on how comprehensive the elimination of trade barriers is by those involved.

benefits of agricultural trade reforms in Indonesia

Indonesia's economy has been growing strongly since the Asian financial downturn in 1997-98 and more resources have been shifted from agriculture to manufacturing and services. With continued income and population growth, food demand in Indonesia, especially demand for wheat based and livestock products, sugar, fruit and vegetables, is expected to increase accordingly. Higher and cheaper food imports will play a crucial role in meeting this increase in domestic consumption in Indonesia.

Australia can play an important role in meeting Indonesia's food demand. However, some import regulations in Indonesia impose an additional burden on Australian suppliers. Reforms to import regulations in Indonesia would lead to greater market access for Australian agricultural exports and increased availability of food varieties to Indonesian consumers. Under this scenario, domestic resources in Indonesia could be used more efficiently elsewhere in the economy to sustain high economic growth. Agricultural trade reforms would also encourage farmers to increase productivity and/or diversify into other more profitable activities.

4 free trade agreements involving Indonesia

agreement	implemented	details
ASEAN	1992	The six most developed ASEAN members (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Thailand and Singapore) to cut all tariffs to 0–5 per cent except for highly sensitive products by 2003. Same tariff cuts for Viet Nam by 2006, Laos and Myanmar by 2008 and Cambodia by 2010. Nontariff barriers to be reduced.
China–ASEAN	2004	Tariffs on 600 agricultural products cut to zero in 2004. By 2010, tariffs on over 7000 commodities, including agricultural, merchandise and services, to be removed by the six most developed ASEAN members. Less developed members have until 2015. Nontariff barriers to be reduced.
Korea–ASEAN 9	2007	Agreement covers merchandise, services and investment. Thailand rejected agreement because of lack of agricultural liberalisation.
Japan–ASEAN	under negotiation	Agreement on trade in goods expected to be finalised in late 2007.
Japan–Indonesia	2008	Economic Partnership Agreement finalised in August 2007.
India–ASEAN	under negotiation	Talks have been stalled since 2006, with agriculture the main sticking point.
EU–ASEAN	under negotiation	Talks commenced in 2007.
Australia–New Zealand–ASEAN	under negotiation	Talks commenced in 2005. Expected that the agreement will be fully implemented by 2015.

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