

# **THE URGENCY OF TOTAL ECONOMIC VALUE ASPECT IN FOOD SECURITY REGULATION IN ORDER TO ENGAGE ASIA'S TRADE AREA (Indonesia Case Study)**

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## **Abstract**

Trade liberalization could be implemented through regionalism (regional trade area) specifically in Asia's Trade Area concept. Regionalism could strengthen the stability of certain area's condition. One of the way, as part of regionalism, is that can be conducted through fortifying of food security. Indonesia as part of international trade community has comparative advantageous such as diverse food products that can be used as means in addressing market competition. These, Indonesia, advantageous, currently, have not accelerated Indonesia's food security position either from state income or agricultural supporting products. Moreover, total economic value has also not been implied into national regulations. Those previous problems shall be completed into a better improvement by including the considerations of total economic value to many regulations controlling food security. This review is undertaken by having trade theory, food security regulation, and field data analysis. By covering total economic value aspect, hopefully, it helps better position for Indonesia in optimizing food security and increasing state (trade quantity and quality) incomes and quality of life of the society itself.

*Keywords:* total economic value, regionalism, food security.

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## **1. INTRODUCTION**

Food Security is a goal of welfare's form that shall be acquired by country and its become parameter of the welfare of the society itself. Food security is the priority of establishment and development for nations especially for wider influences of international trade through globalization. Its likely realized by each country particularly Indonesia to have liberation on food sovereignty and security.

The enlargement of trade not only happens in multilateral scope but also in regional sector such as in Asia. Kind of effort that can be faced with Asia's trade is efforts in strengthening of important aspect through autonomy of food security.

Food liberalization in international purposes its improve a better economic growth and income, better fortunes for all countries including Indonesia (Anugrah Adiastuti, 2012: 607).

In Asia's trade food trade liberalization is an implementation of regionalism or regional trade area (RTA). Its issues from comparative advantageous factor such accommodation toward exchange products in diverse products efficiency (Anugrah Adiastuti, 2012:608). Regionalism is key to strengthen specific area economically. In national level, it causes in minimizing the constraint of economic interaction, while in regional area it brings new advance of new market and international network focused on trade (Michael Plummer, 2009:12).

Trade itself involves the growth and the distribution of food trade. This sector still important as well as the other sectors e.g. trade commodities and trade services. Food trade as part of international trade, on one hand brings preferable condition (economically and non-economically) not only for the country but also for the society, but in the other hand, the regulation and policy of food itself sometimes have not accommodated some important aspects which cause troubles in the future related to national food security.

In Indonesia, food matters are regulated in some national regulations such as Act Number 18 of 2012, Government Regulation Number 12 of 2012, Government Regulation Number 25 of 2012, Government

Regulation Number 30 of 2012. Its act, in consideration part (letter d.) states that the implementation of former regulation had not sufficient in following globalization process. Indonesia as part of international community should adapt the environment adjustment. Article 4 of Act Number 18 of 2012 regarding food declares that food delivering should be conducted to fulfill the basic needs which giving sustainable and fair impact based on food sovereignty, food autonomy, and food security.

From those several purposes, at least there are three purposes that are related to food security in facing Asia's regional trade, such as enlarging food commodity competition either in domestic zone or overseas; increasing prosperity not only for the farmers but also for food producers; and also expanding the diverse of food resources.

The low-grade of Indonesia's food security can be found based on the position of Global Food Security Index at number 64 out of 105 in 2012, while from states incomes classification (one out of four classification), Indonesia was at lower middle income with US\$ 1,006-3,975 GDP per-year and at position 11 out of 26 countries in the same group (Economist Intelligence Unit, 2012:10). Besides income factors, there are another factors which influence food stability and security, for example the difficulties and unaffordable price for seeds and fertilizers, the poor budget (from the government) for supporting the growth of agricultural sectors (Economist Intelligence Unit, 2012:14).

According to Asian Development Bank (ADB) explanation, they have warned that Asia is easily led into double burdens regarding food security matter (<http://www.investor.co.id/home/asia-rentan-hadapi-beban-ganda-nutrisi/68409>) including Indonesia. Indonesia as developing country has main problem in providing food. It comes not only from the raised number of world population but also the unpredictability of food quantity and quality caused by climate change instability (<http://www.investor.co.id/home/adb-ingatkan-pentingnya-ketahanan-pangan/13811>).

From those prior data, it can be seen that Indonesia latterly was not in good condition in enlarging and sustaining the development of food security. It happens because of the existed regulations are not focusing in covering the economic value as part in preventing and resolving the weaknesses of food security. Therefore, this writing attempts to explore and analyze the Urgency of Total Economic Value Aspect in Food Security Regulation in order to Engage Asia's Trade Area (Indonesia Case Study).

## **2. THE URGENCY OF TOTAL ECONOMIC VALUE ASPECT IN FOOD SECURITY IN ORDER TO ENGAGE ASIA'S TRADE**

### **2.1 The Necessity of Food Security**

Based on Food Agriculture Organization (FAO), food Security is defined as state of affairs where all people at all times have access to safe and nutritious food to maintain a healthy and active life. Meanwhile refer to World Food Summit, food security is physical and economic access by all people at all times to sufficient, safe and nutritious food to maintain a healthy and active life (FAO 1996).

In Indonesia regulation, based on Article 1 Number 4 Act Number 18 of 2012 declare that "food security is food guarantee starts from state until individual which can be seen from sufficient foods that sufficient, good quality and quantity, safe, diverse, nutritious, affordable and its not against religion, faith, and social culture in order to create a better, active and productive sustainable life".

This sector has three dimensions, i.e.: (1) availability, (2) accessibility, and (3) affordability. Availability is condition of sufficient quantities of food in appropriate quality, and supplied through domestic production or imports. Accessibility is able to be easily obtained or used households and individuals to appropriate foods for a nutritious diet. Last, affordability is individual ability to consume food according to their respective socio-economic conditions, cultural backgrounds and preferences.

Several problem faces by our country e.g. poor productivity and innovation of technology, nonviable of diverse food, and policies on tangible and intangible agricultural productions and its affects economic growth, poverty, hunger and malnutrition. Population growth (even though in slows rate), demand of land, water and energy and climate change threats turn into another aspect that should be considered to solve in managing of food security (<http://www.investor.co.id/home/asia-rentan-hadapi-beban-ganda-nutrisi/68409>).

Contributing of agriculture post Rio de Janeiro+20 Summit, the world leaders stated about the eradication of hunger in order to sustain food production and consumption (IFAD, et al., 2012:33). It means that food as the necessary needs arises as the center of the states economies which contribute a large share of gross domestic product (GDP), employs a large proportion of the labor force, represents a major source of foreign exchange earnings, supplies the basic food, and provides subsistence and other

income for the large rural populations (Ahmad Suryana, Food Security Agency, Ministry of Agriculture of Republic of Indonesia, 2008: 4).

The fulfillment of food (agricultural commodities) in Indonesia recently still relies on imports. According to Trade, Distribution, and Logistic Division at Chamber of Trade and Industry of Indonesia (KADIN), it portrayed that at least 65% food supplied was acquired from abroad (<http://www.antaranews.com/berita/331187/65-persen-kebutuhan-pangan-nasional-masih-diimpor>) compared to earlier year in 2012 it was in 50% of import of food-equal to Rp 250 trillion. Besides those matters, there is also another crucial thing that should be resolved regarding people's income. According to the World Bank data, people or group who are making \$2-\$13 per-day are categorized into middle class which means people who earns money below \$2 per-day are qualified into poor income and their chronically more suffer for hungry and malnourished (Robbin Johnson, Food Security: The Role of Agricultural Trade, 2009).

Prior explanations above describe that the necessity of food security has big impact into another sector likes affecting the greater earnings caused by the result of food trade transactions; and also the effectuating of Millennium Development Goals (MDGs) which this action could eliminate hunger, poverty, and malnutrition (<http://www.deptan.go.id/news/detailarsip.php?id=1117>).

## **2.2 Food Security, Regionalism, and International Trade**

Food security is traditionally discussed in terms of either self-sufficiency of food self-reliance. What countries need is sufficient capacity to generate the foreign exchange necessary to import whatever quantities they consume over and above what it is efficient to produce based on comparative advantage.

Based on World Bank and Food Agriculture Organization (FAO) data, it is classified 148 developing countries according to a variety of criteria. At least there are two classifications:

- Classifications according to income.

The World Bank has classified countries into low-income countries (LIC), lower middle-income countries (LMIC), and upper middle-income countries (UMIC).

- Classifications according to net trade status in food and agriculture. This class is divided into Net Food Importing (NFIM) and Net Food Exporting (NFEX), and Net Agricultural Importing (NAIM) and Net Agricultural Exporting (NAEX).

Those criteria has related to the development of international trade. The advance of international trade itself is affected from the involvement of every country's role. The higher economic condition and the better security on food, it more supports fairly international trade circulation (FAO-Trade Reforms and Food Security "Conceptualizing and Linkages", Rome, 2003: 35-36).

Food security has its linkages to international trade through trade liberalization in which implies change in the relative prices of traded and non traded of goods and factors in a previously protected sector or economy. The trade itself can be viewed from neo-classical trade theory and the theory of comparative advantage using general equilibrium models. These theories show that many reasons that could explain about the difference occur affecting into food security likes climate change the fulfillment of the needs of future generations. While from The Heckscher-Ohlin (H-O) Theory states that trade occurs because the cost of labor to that of capital is lower in the labor-abundant country, which means that the price ratio of labor-intensive goods to capital-intensive goods is lower in the labor-abundant country than in the capital-abundant country (FAO-Trade Reforms and Food Security "Conceptualizing and Linkages", Rome, 2003: 41-43), This provides the basis for comparative advantageous and when trade begins export commodities that use the relatively abundant factors and imports those that use scarce factors more intensively. It brings into the equivalent of exporting labor for capital. In Indonesia case, the productivity of goods commodities are supporting the better involvement of labor who works in agricultural sector (so this is not purposed for farmers) because the advanced productions are (should be) started not only from preparation of fields and harvest season but also the post harvest (including managing, distributing and exporting products). That is why the interdependence between food security and international in which running altogether trade liberalization can also be optimizing conducted through regionalism. Its sector cooperation is strengthen the flows of trade in food commodities either from material aspect or non-material aspect. The reason that regionalism could boost a better trade and food security because this sector is simpler and uncomplicated in implementing regional trade activities (based on regional agreement that still refers and obeys to WTO regulations) rather than multilateral agreements due the member states of regional area condition and background that they have similarities on economic growth and development. Therefore, the qualified prominent of food security can uplift and improve higher

economic income and international trade relations in facing great regional trade competition particularly in Asia.

### **2.3 The Urgency of Total Economic Value in Asia's Trade**

Asia has enjoyed the important gains in food either for production or income. These benefits are not easier to be maintained due to the difficulties in which faced by all Asia countries caused by the changing of world interactions and conditions. The changing of world interactions means that the relations among countries (in Asia) are affected by politic, economic, culture, competition atmosphere trust, ideology, and other aspects; while the changing of world conditions are problems occurred from physics transformation for instance global warming, extreme climate change, pollutions, etc.

Those modified conditions probably can be solved in short term, but for last long term there should be another solution. In Indonesia, several regulations regarding food has been issued by the government through ratification of international agreements such as Agreement on Agriculture (AoA), act, government regulation, technical regulation, etc. It purposes in order to support fair competition on international, regional and national food trades. That is why it is urgently required to regulate all the regulations in which cover all perspectives so that the regulation that has been published by the government can help maintaining and stabilizing the trade growth.

Unfortunately regulation that already issued, latterly, it lacks of another value that has not been entailed within those several regulations. One of the important values is the entailment of Total Economic Value. Total Economic Value is an integrated economic values where consist of use value and non-use value. Use value is related to beneficial the here and now and also for future conditions (either for environment, society or individual). Simultaneously, non-use value is associated to profit where comes from scientific preservation (long-lasting period of time) of natural resources contained existence value (is that existing value at the present and following time) (Suzette Biber-Klemm and Danuta Szymura Berglas, 2005: 103-104).

Linked to total economic value, based on the recent situations happened in Indonesia, the management of food trade supply and price are still the main task of government (which has stated at Article 13 Act Number 18 of 2012) and import activities are conducted if the national production and national supplementary food (as back-up) are not enough (stated at Article 14 Act Number 18 of 2012). Import activities are the last resort in order completing the needs of society. On one hand, food regulations have maintained the atmosphere of food control by the authority but on the other hand, the regulations are not implemented in good way. We can see that our national policies are only focused on seasonal of food stockpile, where it is all related to seasonal domestic production ability and state trading enterprises (in Indonesia operated by BULOG-Badan Urusan Logistik) actions on import purchased. Indonesia, present-day, only able provides food stockpile for 8-10 months compared to other countries likes United States, China and Russia whose already regulated their national food law and strategy for 15-20 years regarding the global climate change (<http://www.investor.co.id/agribusiness/kebijakan-pangan-nasional-berdimensi-jangka-pendek/68518>). Policies and regulations that issued by our authorities are not strategically sufficient in encountering nuisances of national food production.

Another problem on food security occurs when Indonesia farmers do not have plenty area (usually they only have less than 0.5 hectare). It causes greater disturbance of food production and productivity which related to the final prices of food itself in which is not affordable by the society. The expensive price of food besides cause by previous factor is also provoked by the infrastructure of transportation as the main key. Our logistic cost is about 20% from gross domestic production (GDP) whereas other Asia countries are scaled between 6-10%. Exclusive trade system besides rice, such as sugar, soybean, meat and corn are in BULOG control, meanwhile The Ministry of Trade intends to transfer BULOG exclusive system to their ministry. Even though if the exclusive trade system can be transferred to Ministry of Trade, there should be another coordination with the other ministerial due to the important or exclusive needs refer to the food category. These actions should be organized because our dependency on food is greater and greater every year. For instance, the demand of soybean significantly imports around 1.8 billion ton rather than our production which only around 700-800 thousand ton (our national requirement for soybean is 2.5-2.6 billion ton) (<http://www.investor.co.id/agribusiness/indonesia-perlu-rumuskan-strategi-ketahanan-pangan/62936>).

On Government Regulation Number 12 of 2012 is focusing on the delivering of food sustainability, while Government Regulation Number 25 and 30 of 2012 are focusing on Incentive and Funding for providing food sustainability areas. Those regulations even though has adopt about the protection of food sustainability by creating enough space in supporting food security but these regulations have not

mentioned about the specific rule for maintaining and preserving the region and food commodities that should protected refers to total economic values (use value and non-use value).

Therefore there are several attempts to increase and stabilize our food security. First, the government should determine what kinds of food commodities that should be maintained for their food supply where has strategic impact in economy, social and national politic. Second, we need to regulate job description among central, province and district governances including community participation. This separation obligation and job are required to find out every region specific mutual comparative advantageous where can lead to greater food trade production and higher income. Third, the determination of national food stockpile must be buyout by the central government in controlling food price related to macro and micro economic, national politics, and economic stability (<http://bkp.deptan.go.id/berita-192-harga-dan-cadangan-pangan.html>). Fourth, the arrangement of national food stockpile has big role in order to manage food price that is why the volume of each food commodity should be based on food physical and chemical characters, the mantle of food commodity in national scale, the frequency and volatility volume of food price, and threats anticipation of natural disasters and shortage harvests. Last, issuing new regulations and policies where more focused on the entailment aspect of total economic value.

By having integrated total economic value either in regulation or policies it raises higher quantity and quality of commodities not only in domestic scale but also in regional trade area.

### 3. CONCLUSION

Indonesia currently has issued several regulations and policies on food regarding how to maintain food stability and food security. However this is not enough in protecting better condition for our society due the uncertainty food production and supply, and the expensive price that cannot be afford by our people. Therefore, the government especially central government should create and publish new policies and regulations particularly technical rules contained total economic value in it in order to develop better live and income for all, national and individual economic. Alternatively, better development cover advanced technology would lead greater nutritious food and food productivity in maintaining food security.

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