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**2<sup>nd</sup> Gadjah Mada International Conference on Economics and Business  
(GAMAICEB)**

December 5, 2014  
Eastparc Hotel  
Yogyakarta, Indonesia

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**2<sup>nd</sup> Gadjah Mada International Conference on Economics and Business  
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Dear Presenters and Delegates,

The Publication Office of Universitas Gadjah Mada Faculty of Economics and Business welcomes you to the Second Gadjah Mada International Conference on Economics and Business (GAMAICEB) 2014 held at Eastparc Hotel in Yogyakarta, which is Indonesia's most highly acclaimed cultural center.

We are thrilled to find out that there have been voluminous paper submissions coming to our desk for this conference. To be detailed, 36 international academic papers were received from Indonesia, Japan, and Russia. Due to space and time limits, we have carefully and thoroughly selected 23 papers to be presented in the conference, and three of them will be honored with the "Best Paper Awards."

Our international conference is very timely as the Indonesian government through the Directorate General of Higher Education has pushed for the internationalization of high-caliber research and teaching so as to cultivate globally-accredited academic institutions and enhance competitiveness at the ASEAN, Asian, and world levels.

We are very convinced that our presenters and delegates will gain many shared ideas and great experiences from this conference. Furthermore, our participants will enjoy additional insights from our plenary sessions' speakers, i.e., Prof. Stein Kristiansen, Ph.D. of University of Agder, an expert of regional economics, and Prof. Mudrajad Kuncoro, Ph.D. of Universitas Gadjah Mada, who is renowned as an acclaimed researcher and one of the most celebrated economists at his university.

Through this conference, we are committed to promoting and leveraging our forward-looking mission and academic culture of synthesizing global advancement with local wisdom. Once again, it is my great honor to welcome you to the Second GAMAICEB 2014 in the great cultural city of Yogyakarta, Indonesia.

I look forward to meeting you soon.

Best wishes,

**Eddy Junarsin, Ph.D.**  
Chair of the 2<sup>nd</sup> GAMAICEB 2014

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Proceeding 2014  
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## **Priority of Strategic Commodities: Major Justification Export of Indonesia in China**

Nurliza\*, Dwidjono Hadi Darwanto, Jangkung Handoyo Mulyo, Lestari Rahayu Waluyati

### **ABSTRACT**

Indonesia's export commodities have some dilemmas because of the exporting and importing country policy; trend of world prices fell sharply; also protection and reduction in subsidies that was triggered by trade liberalization. Meanwhile, the GATT Agreement on Agriculture (AoA) causes a lot of disappointment, especially for developing countries. Empirical evidence show that policy of support facility imbalances between groups of developed and developing countries, the impact on world prices, export-import, food security, and farmer's lives; so it's become justification priority objective of strategic commodities as part of a special initiative projects. Therefore, the determination of priority from strategic commodities which refers to universal development goals and to ensure the basic human needs are accepted as an absolute priority to encourage research focus on: (i) The contribution to the national economy; (ii) Food security area; (iii) Farmers' welfare; (iv) The vulnerability; and (v) Sustainability. The empirical finding indicates that the rubber should be restore based on aspects of trade growth, consumption growth, the ratio of production and needs, and the growth of land area. Cocoa needs to strengthen because the average trade growth, consumption growth, growth in land area, and the production rate is positive in the development of performance indicators. Palm oil should be maintained and kept their stability because production growth rate is still high and consumption growth in the largest. Therefore, there needs some priority in commodities to negotiate and policy formulation, such as: rubber urge to restore through rejuvenation especially above the age of 30 years, price incentives to quality, farm management, research and development by official institutions. Meanwhile, cocoa necessary to increase the quality and added value through post-harvest management in accordance with the processing industry standards; palm oil requires information and technology support to improve competitiveness.

Keywords: Priority of strategic commodities, exports, the contribution to national economy, food security area, farmers' welfare, vulnerability, sustainability.

### **1. Introduction**

Balance of trade in agricultural commodities during January to June 2013 had a surplus of US \$ 9.06 billion derived from the plantation sub-sector amounted to US \$ 13.37 billion. Agricultural exports are dominated by commodities which reached 96.55%. The main contribution comes from oil palm of US \$ 8.89 billion, followed by natural rubber of US \$ 3.63 billion, coffee beans of US \$ 501.50 million, cocoa beans of US \$ 391.09 million, and the coconut of US \$ 324.04 million. Meanwhile, during the period from January to

June, 2013, Indonesia has been exporting agricultural commodities to various countries. The main purpose of agricultural export from commodities is India, with export value of US \$ 2.76 billion, or 18.22% of total agricultural exports. Followed by China amounted of US \$ 1.86 billion, or 12.23% of total agricultural export value (Data and Information Agriculture Centre, 2013).

Therefore, China became the second largest commodities export destinations and has an important role in trade agreement and global economy. China's economic development is quite fast and able to sustain high growth compared to other countries. Trade agreement with China would be very beneficial because China has potential market, high investment, market for raw materials and capital goods, especially from the agricultural sector to drive their industrial sector.

However, Indonesia's export commodities have some dilemmas. First, kebijakan perdagangan negara pengekspor seperti Malaysia, Thailand, Vietnam, India, Brazil, Columbia, Pantai Gading dan Ghana had generate spillovers to Indonesian economies. The optimal policy response may depend on the nature of the shock and the state of the global economy. Thus, when global demand is weak and policy room in the rest of the world is limited, there may be a case for a less countercyclical fiscal policy response.

Second, Trend of world prices fell sharply. Commodity prices have risen dramatically over the past decade interrupted only briefly by the global financial crisis. By the end of 2011, average prices for energy and base metals in real terms were three times as high as just a decade ago, approaching or surpassing their record levels over the past four decades. Food and raw material prices also rose markedly, although they remain well below the highs reached in the 1970s. Many analysts attribute elevated commodity prices to the sustained growth in emerging market economies over the past decade. Looking ahead,

given the weak global activity and heightened downside risks to the near-term outlook, commodity exporters may be in for a downturn. If downside risks to global economic growth materialize, there could be even greater challenges facing commodity exporters, most of which are emerging and developing economies. On the other hand, prices may decline in response to increasing user efficiency and the unwinding of earlier supply constraints. This involves upgrading policy frameworks and institutions and building buffers to address cyclical volatility while gradually incorporating new information to smooth the adjustment to potentially permanently higher prices.

Third, protection and reduction in subsidies that was triggered by trade liberalization. There is a general tendency to protect and subsidize farmers in developed countries and to tax and discriminate against farmers in developing countries. The main objectives of agricultural policies in many developed countries have usually been food security and the income level of farmers. The objective of self-sufficiency in food has been exceeded in many countries and consequently overproduction of agricultural products has become a problem in those countries whose production is not cost-competitive. Thus, domestic surpluses have been exported to world markets by using export subsidies, which has depressed world market prices. Overproduction has been tried to be solved through production control measures like production quotas, which have created market distortions and economic efficiency losses. Market price support has been used extensively to support farm incomes but its support has contributed to the intensification and specialization of agriculture, which are the main causes of direct pollution due to agricultural production. However the current agricultural policies and production patterns and their environmental impacts form the baseline against which changes in environmental quality due to trade liberalization and domestic policy reforms can be assessed. Since the Uruguay Round Agreement on Agriculture as well as domestic policy reforms are quite recent, and many

environmental impacts become evident only in the longer term, qualitative elements play a major role.

Based on the Agreement on Agriculture of World Trade Organization (AoA-WTO), all member countries should gradually reduce and phased out any kind of protection, subsidy, and all non-tariff barriers. Import tariff is allowed and bounded for each agricultural product. Indonesia is one among other countries who signed and committed to be bounded in this agreement. Nevertheless, most of developed countries actually protect their farmers, through provision of farming subsidy and market support. To some extent, it was allowed in the AoA-WTO which was designed by the developed countries.

Nowadays, many developing countries have realized that there are some weaknesses and rooms in the AoA-WTO to be manipulated by the developed countries. For example, in the period of 1995-2004, the European Union has given more than 100 billion Euros in terms of producer support estimate (PSE) to support their agricultural products, and tended to increase by 0.47 percent annually. Similarly, USA have spent about US\$ 68-109 billion annually to support the marketing of their agricultural products, and tended to grow more rapidly by 4.03 percent per year (OECD, 2005a). All those policies launched by developed countries were aimed to protect their farmers. Those policies of developed countries had a negative impact on the competitiveness of agricultural products in the developing countries, especially due to unfair international trade.

Unlike developed countries, Indonesia has no ability to significantly provide domestic support to its farmers, neither as included in the Green Box nor in the Amber Box. Budget limitation in line with long economic crisis has led Indonesia to reduce even phased-out any kind of subsidy, and reduced price support that was implemented in 1980s. This paper is aimed to describe the justification and identification of strategic commodities those can



be one of the main arguments of special determination and strategic product in Indonesia-China trade negotiations so that the government has the flexibility of discretionary policy determination with consideration of factors number of production and trade of agricultural products that are essential to the livelihood of citizens in line with the implementation of the AoA-WTO, by utilizing the available secondary data and earlier studies.

## **2. Literature review**

Development economists in general and agricultural economists in particular have long focused on how agriculture can best contribute to overall economic growth and modernization. Many early analysts (Stringer and Pingali, 2004; IICA, 2010; Senadza Senadza and Laryea, 2012) highlighted agriculture's abundant resources and ability to transfer surpluses to the more important industrial sector.

There are good reasons why these early approaches focused on agriculture's economic role as being a one-way path involving the flow of resources towards the industrial sector and urban centers. In agrarian societies with few trading opportunities, most resources are devoted to the provision of food. As national income rises, the demand for food increases much more slowly than with other goods and services. As a result, value added from the farm household's own labor, land and capital as a share of the gross value of agricultural output falls over time (Nyairo et.al., 2009).

Substantial empirical evidence exists on the positive relationship between agricultural growth and economic development (Dorward et al., 2004). The transformation of agriculture from its traditional subsistence roots, induced by technical change, to a modern and ultimately industrialized agriculture sector is a phenomenon observed across the developing world. However, there are also a large number of countries that have stalled in the transformation process, or have yet to get agriculture moving.

Rapid agricultural productivity growth is a prerequisite for the market mediated linkages to be mutually beneficial. Productivity growth that resulted from agricultural research and development has had an enormous impact on food supplies and food prices, and consequently, has been beneficial to food security and poverty reduction (Stringer and Pingali, 2004).

Agricultural productivity growth also triggers the generation of non-market mediated linkages between the agricultural sector and the rest of the economy. These include the indirect contributions of a vibrant agricultural sector to: food security and poverty alleviation; taking on a safety net and buffering role, and the supply of environmental services (FAO, 2004a). The positive relationship between agricultural growth and overall economic growth is also empirically well-established (Kieran and Karl, 2007). Evidence consistently shows that agricultural growth is highly effective in reducing poverty.

However, Rodriguez and Rodrik (1999) have criticized arguments that associate trade openness with more rapid economic growth. They indicated that there is lack of control of the indicators of economic growth, and economic growth and the impact of trade liberalization on poverty reduction remains controversial among researchers (Daniel and Sunday, 2002). The basic rationale is that, if growth distribution is neutral among countries, and both trade liberalization and economic reforms favor more open trade, then it can be argued that trade liberalization should be beneficial to poverty reduction. However, the evidence suggests that the issue is much more complex and controversial (Figini and Santarelli, 2006). It is important to distinguish between liberalization of the country concerned and that of its trading partners. Both bring different costs and benefits. Own-liberalization should benefit consumers by lowering prices, and reduce input costs for producers (although this is often reversed by accompanying exchange rate

devaluations). However, producers may also face competition from cheap imports that can outweigh the benefits. Trade liberalization by trading partners should improve both volumes and prices for exports, thereby benefiting export crop producers (DFID, 2005).

### **3. Theoretical framework**

#### **3.1. Economic gain from trade**

The importance of trade to development and growth is well grounded in theory. The rationale for gains from trade is provided by comparative advantage theory which says all countries gain when each concentrates on and exports goods that they can produce at lower opportunity cost than their trading partners. Different explanations have been given for the basis of comparative advantage but the most dominant one is the Heckscher-Ohlin Model. This says that a country can produce a product at lower opportunity cost if that product requires intensive use of inputs the country has in relative abundance. Thus a country well-endowed with arable land will tend to have an advantage in producing agricultural commodities. So long as its trading partners also adhere to the same principle they will also gain. The recommendation for countries then is to follow the dictates of comparative advantage and allow the free interplay of market forces.

The gains derived however are only static. Dynamic gains and growth come in when resource allocation according to comparative advantage, higher capacity utilization and the exploitation of economies of scale under an outward oriented development strategy improve investment efficiency where the resulting savings in capital may be used to increase output and employment elsewhere in the economy.

Other dynamic gains that can lead to growth include the ability of a developing country especially to acquire the vital inputs such as technology to aid in the development process.

Learning effects are also achieved from the development of new product technologies and information sources.

However, it has been observed that the transmission of economic growth from the export sector to the rest of the economy will depend on the capital intensity of the production process, the economies of scale in export production, the transportation requirements of exports, the availability of underutilized factors in the rest of the economy, the level of entrepreneurial skills among others. This then hinges on policies that can be put in place. Studies have shown that this is important. The weight of evidence both theoretical and empirical then points to the fact that trade presents an opportunity for growth but does not guarantee it. Consequently the onus lies with government to adopt policies that will create the necessary environment that will ensure positive benefits from trade. The kinds of policies that matter in this respect involve the building and enhancement of economic infrastructure and institutions, the building of productive capacity, the kind of trade policies and regulations undertaken and trade related infrastructure. Since developing countries typically lack adequate resources to undertake the policies mentioned external resources especially aid are needed. This is where the question of aid for trade comes in. The need is to create a more competitive economy.

Caballero et.al., (2013) in comparative cost theory show that one reason why the amount of goods and services available to a country at a point in time can increase through trade is because it allows the country to buy goods and services from sources where it costs comparatively less to produce them. Local resources tied up in the production of these goods in the absence of trade are hence liberated so that comparatively more of other goods can be produced.

The gains from trade are shared between two countries. The way it is shared depends on the international price relation between products, i.e. the rate at which they are traded - what economists call the external terms of trade. Note that these exchange rates express the greater relative efficiency of producing product in one country. The terms of trade will be contained between the exchange ratios between countries, since otherwise one of the countries would not be interested in trading. Trading will favor a country more; the farther away the international terms of trade are from its own exchange ratio. The above is the classical comparative cost theory of the gains from trade, also known as comparative advantage theory, originally stated by David Ricardo in the early part of the 19th century. It is useful to present it in some detail because it is the single most powerful explanation of the gains from trade put forward by the economic profession.

The concept of comparative advantage has to be distinguished from that of absolute advantage, which indicates that the country in question uses in absolute terms fewer resources in the production of the given commodity. The basic tenet of the comparative cost theory is that the gains from trade arise from the existence of a comparative cost advantage and not of an absolute cost advantage.

One more way in which international trade can raise efficiency is through the enhancement of competition. By opening their frontiers to trade, countries force their industries to compete with goods and services produced abroad and hence to struggle to become competitive and pass on cost reductions to consumers in the form of lower prices. In industries which tend to be monopolistic or oligopolistic because of the nature of the production process (e.g. presence of big entry costs, large economies of scale, dependence on a specialized input in short supply), this may be particularly important. The car and telecommunication industries are examples of this. Trade may be a good way to bring

competition and raise efficiency in these industries. This advantage of trade is not very relevant in agriculture since, because there are many farms producing very similar commodities, the farm sector is hardly a concentrated industry. However, farmers may benefit from the increased efficiency of input supply industries or food processing industries brought about through trade.

### **3.2. Failure of negotiations on agricultural trade**

After the latest failure(s) of negotiations on agricultural trade at the WTO in December 2009, of the FAO summit in Rome on food security in November 2009 and of the Copenhagen climate change conference in December 2009, there is the problem of farmers' access to productive land and the access for all individuals to a healthy and sufficient food. This is partly an issue concerning the ineffectiveness of economic and social human rights. During the 4th World Forum on Human Rights (held in Nantes on 28 and 29 June 2010), we will query this ineffectiveness, its causes and the legal remedies to fix it.

The principles that govern trade in the WTO severely limit the possibility for States to treat differently competing products based on their environmental costs. Therefore, under the rules of international trade, it would be very difficult for a State to enforce. Moreover, the WTO negotiations on agriculture stumble on the openness level of developing countries to products from rich countries. This is the counterpart for the dismantling of subsidies in the latter – especially in Europe and USA. The prospect of food crises in southern countries imposes to limit trade liberalization on their territory. For that reason, the trade negotiation provides the opportunity for each State to implement a safeguard mechanism allowing it to increase its customs tariffs in case of increased imports of agricultural products on its internal market. Nevertheless, there is still a significant

disagreement regarding the threshold to launch this safeguard mechanism. But this threshold depends on the trade negotiations in the WTO as well as the negotiations on food security in the FAO.

To some, the food trade liberalization can only benefit the richest countries, as it is always the case in other sectors subject to law of market. It should rather to limit the expansion of the law of market by a legally binding regulation. For others, all solutions must involve greater trade liberalization. The liberalization of trade in environmental goods and services would be expected to have a positive effect on global warming. And liberalization of trade in agricultural products is expected to be conducive to development – and thus help reduce the prospect of food crises.

That liberalization is a cause of problems, or their solution instead, it is necessary to analyze concepts able to establish legal principles especially those of sovereign land, food security and food specificity (Dutilleul, 2011): (i) The sovereignty of land determines the means by which states can maintain control of agricultural land – in particular to prevent its capture by foreign private or public powers; (ii) Food security allows states to provide at once an adequate supply of food for the whole population and the food safety. Food security necessarily presupposes that the state retains some degree of control over agricultural products entering or leaving its territory; (iii) Food specificity which can pose a fundamental question: Does trade in agricultural products (because they are vital for people) must be covered by a special legal treatment? Overall, these products are now regarded rather as a commodity like others.

There is a need to consider a correction of the general law to implement a special law for agricultural goods. The food specificity may already occur at the stage of intellectual property (broadly defined), including tailoring patent law applied to seeds, specifying the

plant variety protection law applied to agricultural products, expanding internationally legal ways to promote products. The food specificity could also affect the mechanisms of price formation in order to remove at least the basic food products on the evils of speculation. Therefore, speculation on commodities (whose populations, especially in southern countries, eat to live or survive) certainly leads to instability and volatility of prices and, consequently, to successive and inevitable food crises. This specificity could also involve the mechanisms of competition, especially when it is necessary to limit exports of a production the name of security of supply, or to restrict imports on behalf of the survival of domestic producers.

#### **4. Methodology**

The scope of the research is a major commodity trade between Indonesia and China that include natural rubber, coffee beans cocoa beans and palm oil because these export commodities have the largest positive contribution in Indonesian balance of payments in China as the second largest destination country after India. This research use time series data, which includes over 2000-2011 periods since 2000 year Indonesia used 2000 year as base year. The completeness and availability of the data have been consideration. The data are collected from Economic Statistics, Central Bank, Central Bureau of Statistics, Ministry of Agriculture, Ministry of Industry and Trade, Directorate General of Food Crops and Horticulture, Director General of Plantation, Ministry of Finance, Agency of Capital Coordination Center, and International Trade Centre, Data and Information Agriculture Centre, <http://fx.sauder.ubc.ca> and previous research.

##### **4.1. Agreement on Agriculture (AoA) history**

The General Agreement on Tariffs and Trade (GATT) came to life in 1947 in Geneva as a framework for regulating international trade. The World Bank and the IMF established in



1944 were associated initiatives to deal with matters of international development and finance. At the beginning, a charter was envisaged for the formation of an International Trade Organization but member governments never ratified this. The objectives of the GATT 1947 were to establish an orderly and transparent framework within which barriers to trade could be gradually reduced and international trade expanded.

As a result, the GATT continued to be governed by "provisional" and "interim" measures, and remained an agreement without a formal organization to enforce it. These "provisional" arrangements persisted up until 1994, when the Uruguay Round (UR) Agreement was concluded and the World Trade Organization (WTO) established.

The Agreement on Agriculture forms a part of the Final Act of the Uruguay Round of Multilateral Trade Negotiations, which was signed by the member countries in April 1994 at Marrakesh, Morocco and came into force on 1st January, 1995. The Uruguay Round marked a significant turning point in world trade in agriculture. For the first time, agriculture featured in a major way in the GATT round of multilateral trade negotiations. Although the original GATT – the predecessor of the World Trade Organization (WTO) – applied to trade in agriculture, various exceptions to the disciplines on the use of non-tariff measures and subsidy meant that it did not do so effectively. The Uruguay Round agreement sought to bring order and fair competition to this highly distorted sector of world trade by establishment of a fair and market oriented agricultural trading sector.

For this, the agreement contained certain underlying principles and provisions that have been built upon over consecutive rounds of negotiations. Four key principles are summarized: (i) Most-Favored-Nation (MFN) Treatment states that each contracting party to the GATT is required to provide to all other contracting parties the same conditions of trade as the most favorable terms it extends to any one of them; (ii) Reciprocity states that

each contracting party has a right, e.g. access to markets of other trading partners on a MFN basis, but also an obligation to reciprocate with trade concessions on a MFN basis; (iii) Transparency states that fundamental to a transparent system of trade is the need to harmonize the system of import protection, so that barriers to trade can then be reduced through the process of negotiations; (iv) Tariff binding and reduction states that tariffs were the main form of trade protection, and negotiations in the early years focused primarily upon tariff binding and reduction.

Agriculture has had a difficult history in the GATT. The GATT does not say much about agriculture specifically, which meant that in theory agricultural trade was to be treated essentially like trade in other goods. But agriculture was not forgotten altogether - the subject was brought in all successive rounds - but without much success. At the same time, it attracted a large number of trade disputes. It was the UR that finally brought agriculture closer to the GATT.

As a result, in the 1970s and 1980s, success in international markets for agricultural products was increasingly determined by the financial power and largesse of national treasuries rather than the efficiency and marketing skills of agricultural producers and exporters. Export subsidies also became a major factor in depressing or destabilizing world market prices for many agricultural commodities. The Uruguay Round marked a radical departure from the earlier GATT disciplines in the areas of agricultural export subsidies. Under the Agreement, export subsidies are defined as “subsidies contingent on export performance” and the list covers export subsidy practices such as direct export subsidies contingent on export performance; sales of noncommercial stocks of agricultural products for export at prices lower than comparable prices for such goods in the domestic markets; producer-financed subsidies such as government programmers which require a

levy on production which is then used to subsidize the export of the product; cost-reduction measures such as subsidies to reduce marketing costs for exports including handling costs and costs of international freight; internal transport subsidies applying only to exports; subsidies on incorporated products i.e., subsidies on agricultural products such as wheat contingent on their incorporation in export products made of wheat etc. All such export subsidies are subject to reduction commitments in terms of both the volume of subsidized export and budgetary outlays for such subsidies.

Meanwhile, the implications of the agreement would differ from country to country and would depend largely on the overall agricultural scenario in the country. Indonesia agriculture is characterized by a preponderant majority of small and marginal farmers holding less than two hectares of land, less than 35.7% of the land, is under any assured irrigation system and for the large majority of farmers, the gains from the application of the science & technology in agriculture are yet to be realized. Farmers, therefore, require support in terms of development of infrastructure as well as extension of improved technologies and provisions of requisite inputs at reasonable cost.

However, there are three categories of support measures that are not subject to reduction under the agreement, and support within specified de minimis level is allowed. These three categories of exempt support measures are: (i) Measures which have a minimum impact on trade and which meet the basic and policy specific criteria set out in the Agreement; (ii) Developing country measures otherwise subject to reduction which meet the criteria set the so-called 'Special and Differential Treatment'; (iii) Direct payments under production limiting programmed.

The root cause of distortion of international trade in agriculture has been the massive domestic subsidies given by the industrialized countries to their agricultural sector over

many years. This in turn led to excessive production and it's dumping in international markets as well as import restrictions to keep out foreign agricultural products from their domestic markets. Hence, the starting point for the establishment of a fair agricultural trade regime has to be the reduction of domestic production subsidies given by industrialized countries, reduction in the volume of subsidized exports and minimum market access opportunities for agricultural producers world-wide. The obligations and disciplines incorporated in the Agreement on Agriculture, therefore, relate to (a) market access; (b) domestic subsidy or domestic support; and (c) export subsidy.

#### **4.2. The argument of justification and identification**

Ratification form of the WTO has made Indonesia through UU No. 7 in 1994 so as to meet the AoA agreement which is an integral part of the WTO. AoA in WTO has three pillars, summarize as market access, domestic subsidies and export subsidies; as well as an advanced treatment as inclusive part of the three elements of the AoA which can be utilized for the purpose of food security and rural development.

Developing countries recognize that the WTO AoA has weaknesses and had disincentive to agricultural development policy as indicated: (i) market access to developed countries relatively more difficult because of the initial tariff rate is much higher; (ii) Developed countries use the power of its capital to subsidize higher domestic exports and encourage the export of agricultural commodities production surplus; (iii) the absence of tariff adjustment flexibility. Meanwhile, food imports increased since liberalization in 1998 thus increasing the number of poor farmers.

Therefore, the justification and identification of strategic commodities can be one of the main arguments of special determination and strategic product in Indonesia-China trade negotiations so that the government has the flexibility of setting the policy discretion

limited number of production and trade of agricultural products essential to the livelihood of citizens.

Justification and the method of determination of strategic commodities refer to an objective method based on the following factors (Simatupang, 2004):

1. Generally accepted, with the criteria as follows: (i) closely correlated and coherent with development objectives universally as a global development priority, strengthening food security, people livelihood, and sustainable rural development; (ii) quantitative measurements with a simple and easy procedure based on construction performance evaluation of each country.
2. Can be used as the basis of objective thinking by all stakeholders based on: (i) Statistic data are available; (ii) Statistic data can be accessed by all interested parties.
3. Selective, limited products which means they are really important and should be based on historical consensus, empirical evidence, and academic evidence.
4. Conditional, strategic commodities are not permanent but can be dynamically increased or decreased, depending on the condition of the structure and progress of the country.

Simatupang (2004) suggest that the government may issue a policy priority commodities considered strategic due to the time adjustment to trade liberalization refers to the goal of development is universally accepted as an absolute priority and to ensure basic human needs, food security, people livelihood improvement), and sustainable rural development.

There are some basic indicators of strategic commodities determination. Strategic commodity indicators in Simatupang (2004) are: (i) the percentage share in the total value of domestic agricultural production (role in the economy of the village); (ii) The

percentage share in the supply of nutrients, calories and protein (roles in food security); (iii) Percentage share of employment in the agricultural sector (role in poverty alleviation); (iv) Dependence on imports (vulnerability); (v) The incidence of import surges (fragility); (vi) Trend growth (sustainability).

Meanwhile, Dermoredjo (2001) states that national agricultural development has some indicators: (i) The contribution to the national economy, such as: the share of agricultural GDP, population growth, employment growth (agriculture and non-agriculture), the ratio of rural-urban labor, inflation growth, and export and imports growth for primary agricultural and processed agricultural; (ii) Food security, such as: the growth of grain per capita, the growth of consumption (food and non-food), the growth rate of the price of rice in rural household expenditure, the difference in food security index (energy and protein), and the ratio of production rice needs; (iii) farmer's welfare, such as: general index growth rate of farmers, poor growth, wage growth, growth in land area (irrigation and agriculture), population growth (large livestock, small livestock and poultry), and the growth in the number of boats/ships; (iv) The environment, such as: the use of chemical fertilizers, forestry GDP growth, growth of degraded land; (v) Institutional, such as: the growth rate of small business loans.

Therefore, the identification of strategic commodities in this paper will be formulated based on national agricultural development indicators and strategic commodities indicator such Dermoredjo (2001) and Simatupang (2004) statement among others: (i) The contribution to the national economy: the share of exports of agricultural real GDP, and the growth of exports; (ii) the area of food security: consumption growth, the ratio of production and needs; (iii) Farmer's welfare: the land growth; (iv) Sustainability: the production growth rate.

The criteria for strategic commodities then summarizes in Simatupang (2004) as: (i) the share of the agricultural production value more than 10%, trade growth more than 10%; (ii) consumption growth more than 10%, the ratio of production to the needs more than 100%; (iii) a negative growth of land; (iv) the rate of production growth is negative.

## 5. Empirical findings

### 5.1. The contributions to national economy

Table 1 summarizes the results of the role of strategic commodities in the national economy which is measured by the share of major commodities export value of real GDP.

Table 1. Share of Major Commodities Export Indonesia in China (%)

Year	Natural Rubber	Coffee Beans	Cacao beans	Palm Oil
2001	0.99	0.01	0.12	0.12
2002	0.59	0.01	0.07	0.12
2003	0.45	0.04	0.05	0.12
2004	0.87	0.04	0.05	0.14
2005	0.77	0.01	0.04	0.16
2006	0.81	0.00	0.01	0.07
2007	0.52	0.01	0.01	0.07
2008	0.86	0.01	0.01	0.12
2009	0.79	0.02	0.01	0.08
2010	0.49	0.02	0.01	0.05
2011	0.68	0.02	0.01	0.12
Average	0.71	0.02	0.03	0.11

Source: Central Bureau of Statistics, 2013

The average share of major commodities trade of Indonesia in China shows that the natural rubber, coffee beans, and cocoa beans and palm oil each of them had contribution less than 1% of the national agricultural development value. Table 2 will summarize Indonesian trade growth in the national economy.

Table 2. The Growth of Major Commodities Export of Indonesian in China

Year	Natural Rubber (Tons)	Growth (%)	Coffee Beans (Tons)	Growth (%)	Cacao Beans (Tons)	Growth (%)	Palm Oil (Tons)	Growth (%)
2000	351.29		8,651.74		9,078.82		1,933,271.74	
2001	401.60	14.32	7,436.28	-14.05	10,375.01	14.28	1,560,676.83	-19.27
2002	2,823.41	603.04	6,220.82	-16.35	11,671.19	12.49	1,286,192.98	-17.59
2003	2,773.10	-1.78	5,005.37	-19.54	12,967.38	11.11	1,715,591.08	33.39
2004	351.29	-87.33	3,789.91	-24.28	14,263.56	10.00	1,296,922.25	-24.40
2005	401.60	14.32	2,574.45	-32.07	15,559.74	9.09	1,293,630.26	-0.25
2006	2,823.41	603.04	1,358.99	-47.21	16,855.93	8.33	1,601,541.95	23.80
2007	2,773.10	-1.78	1,371.60	0.93	18,152.11	7.69	1,289,911.62	-19.46
2008	4,753.95	71.43	1,625.56	18.52	19,448.30	7.14	1,560,676.83	20.99
2009	5,204.83	9.48	1,344.98	-17.26	6,617.58	-65.97	2,292,653.32	46.90
2010	2,929.86	-43.71	1,770.81	31.66	14,789.94	123.49	1,933,271.74	-15.68
2011	1,293.96	-55.84	2,925.33	65.20	6,654.17	-55.01	1,824,431.41	-5.63
Average		102.29		-4.95		7.51		2.07

Source: Foreign Trade Statistical Bulletin, 2013

The trade growth of Indonesia in China represent the contribution to the national economy, natural rubber has the highest of average growth rate. The largest growth fluctuations of natural rubber happened in 2002 and 2006 years; otherwise, the lowest happened in 2004. The world prices volatility of natural rubber is the largest which had affected the growth trade rate.

Meanwhile, palm oil export had the mostly stable of average growth rate, the highest growth happened in 2009 and the lowest happened in 2004. Otherwise, coffee beans export in the period from 2000 to 2006 and 2009 showed a declining trend, in 2011 has the highest trade growth but in 2006 has the lowest trade growth. While, cocoa beans export showed a positive growth rate, except in 2009 and 2011 years, the highest growth rate happened in 2010 and the lowest happened in 2009. We can figure out the condition of export commodities growth in period 2001-2011 years as the risks that must be anticipated, especially for natural rubber which had vulnerable to world price fluctuations.



## 5.2. Food Security

Food security is measured by the area of consumption growth, and the ratio of production to the needs and table 3 shows the consumption growth.

Table 3. Indonesian Consumption Growth (%)

Year	Natural Rubber	Coffee Beans	Cacao Beans	Palm oil
2008	-11.40	-2.20	0.74	10.16
2009	12.06	0.63	3.50	13.64
2010	9.34	-7.02	-14.99	5.19
2011	3.33	-2.86	-3.58	9.66
Average	3.33	-2.86	3.58	9.66

Source: Director General of Plantation, 2013

The consumption growth of Indonesian major export commodities in China showed that palm oil had the highest growth rate due to an increase in production which is caused by palm oil expansion in various regions by foreign investors, as well as an increase in export volumes. Meanwhile, the ratio of production and needs is summarized in table 4.

Table 5.4. The Ratio of Production and Needs (%)

Year	Natural Rubber	Coffee Beans	Cacao Beans	Palm oil
2008	100.08	100.07	100.06	100.05
2009	100.08	100.07	100.07	100.06
2010	100.09	100.06	100.07	100.05
2011	100.09	100.05	100.06	100.05
Average	100.08	100.06	100.06	100.05

Source: Director General of Plantation, 2013

Table 4 had shown that the average major commodities exports of Indonesia in China had great potential, especially for natural rubber. While, domestic demand led to a sizable palm oil production ratio values and needs are the smallest compare than the other commodities.

### 5.3. Farmer's welfare and Sustainability

Farmer's welfare is one indicator of strategic commodities as measured by land growth as presented in table 5.

Table 5. Land Area Growth of Major Commodities Export in China (%)

Year	Natural Rubber	Coffee Beans	Cacao Beans	Palm oil
2002	-0.79	4.48	11.27	7.50
2003	-0.85	-5.85	5.49	4.27
2004	-0.85	0.93	13.14	0.02
2005	0.52	-3.73	6.97	3.20
2006	2.04	4.26	13.18	20.92
2007	2.01	-0.98	4.43	2.61
2008	-18.92	-26.11	3.33	8.82
2009	-2.15	-3.27	11.36	1.96
2010	2.41	-4.79	4.06	4.22
2011	0.66	3.17	5.71	-16.29
2012	0.83	-0.09	-34.60	0.55
Average	-1.37	-2.91	4.03	3.44

Source: Central Bureau of Statistics, 2013

Table 5 described the average of land area growth rate for cacao beans and palm oil is positive; otherwise for coffee beans and natural rubber.

Eanwhile, sustainability indicators is measured by production trend over time which is summarizes in table 6.

Table 6. Production Trend of Major Export in China (%)

Year	Natural Rubber	Coffee Beans	Cacao Beans	Palm oil
2001	7.06	2.64	27.46	19.94
2002	1.42	19.81	6.40	14.60
2003	9.94	-1.58	22.35	8.51
2004	15.26	-3.56	-1.02	3.73
2005	9.93	-1.08	8.26	9.52
2006	16.13	6.53	2.75	46.28
2007	4.47	-0.83	-3.82	1.81
2008	-0.14	3.18	8.59	-0.71
2009	-11.30	-2.21	2.10	10.17
2010	12.07	0.63	2.12	13.63
2011	9.34	-7.03	-15.00	5.18
Average	6.74	1.50	5.47	12.06

Source: Central Bureau of Statistics, 2013

In table 6 production growth rate describe the existence of domestic production, the negative value of real growth value indicates the commodity production sustainability trend being threatened.

## 6. The Priority of Strategic Export Commodities

Table 7 will summarize the strategic commodities indicators: (i) The contribution to national economy: the share of exports to real GDP of agriculture, and the growth of exports; (ii) Food security: consumption growth, the ratio of production and needs; (iii) The welfare of farmers: the growth of land area; (iv) Sustainability: production growth rate.

Table 7. Performance Indicators for National Development for Indonesia Major Export Contributions in China (Average %)

Export Commodities	The Contribution to National Economy		Food Security		Farmer's Welfare	Sustainability
	the share of exports to real GDP of agriculture	Export Growth	Consumption Growth	The Ratio of Production and Needs	The Growth of Land Area	Production Growth Rate
Natural Rubber	0.71	102.29*	3.33*	100.08*	-1.37*	6.74
Coffee Beans	0.02	-4.95	-2.86	100.06	-2.91*	1.50
Cacao Beans	0.03	7.51	3.58*	100.06	4.03	5.47
Palm Oil	0.11	2.07	9.66*	100.05	3.44	12.06

\*) the feasibility of strategic commodities

Source: Central Bureau of Statistics, Director General of Plantation, and Foreign Trade Statistical Bulletin, 2013

For natural rubber, performance indicators for national development base on export growth, consumption growth, the ratio of production and needs and the growth of land area indicated the urgency for post-harvest management, restoration, rejuvenation and replanting because this commodity is the livelihood for major population especially outside Java Island due to mainly aged over 30 years and world prices volatility. The government also needs to take action to increase the food security of farmers. Therefore, several actions really need to be taken, such as: the quality price incentives for farmers,

farm management improvement, research and development by official institutions due to compete with other producing countries.

Meanwhile, cocoa beans needs to be improved base on average trade growth, consumption growth, land area growth, and the production rate in performance indicators of development. Therefore, improving in quality and added value can be a priority through post-harvest management to comply with the standards of domestic and international cocoa processing industry requirement.

Furthermore, palm oil should be maintained and kept their stability in consumption growth and of production growth rate which are still high value. Palm oil has the largest consumption growth mostly depend on the medium-large company performance which is dominated by foreigners. Therefore, the support of various stakeholders especially the government policies for industry structure establishment and information and technology to improve the competitiveness.

Those reasons become one of urgency action to determine export policy especially in China and strategic commodity justification and identification to support medium and long-term policies. Thus, policy priorities of Indonesia's major export commodities in China are suggested to maintained their stability by some effort to keep their performance; cocoa beans should be improved; and natural rubber requires much more integrated and sustainable post-harvest risk management and replanting or rejuvenation efforts. The combination of policy and market failures producers without access to realistic information led to the isolation of financial policies that impact on the expansion of production, the market response mismatch and income levels of the poor. Therefore, the government can intervene through various policies: (i) price incentives; (ii) liberalization of the internal marketing; adoption processing technology, quality improvement; (iii) the

provision of access to information and access to markets refined products; (iv) assistance to the mechanization of replanting and new small farmers; (v) the flexibility of export credit financing with longer credit term Islamic instruments and commodity trading opportunities.

## **7. Conclusions**

Developing countries recognize that the WTO AoA has weaknesses and had disincentive to agricultural development policy; meanwhile, food imports increased since liberalization in 1998. Therefore, the justification and identification of strategic commodities can be one of the main arguments of special determination and strategic product in Indonesia-China trade negotiations so that the government has the flexibility of setting the policy discretion limited number of production and trade of agricultural products essential to the livelihood of citizens. Thus, the strategic commodities indicators can be used for the determination of strategic export priority for government policy that are summarizes from the contribution to national economy, food security, farmer's welfare and the sustainability.

Empirical finding suggest that Foreign trade policy priority export-oriented should maintain and improve major export; natural rubber need urgency action for post-harvest management, restoration, rejuvenation and replanting because this commodity is the livelihood for major population especially outside Java Island due to mainly aged over 30 years and world prices volatility. Meanwhile, cocoa beans needs to be improved because the average trade growth, consumption growth, the land growth, and the production rate are positive in the performance indicators of development. Palm oil should to be preserved and maintained its stability due to the consumption growth and production growth rate is still high.

Furthurmore, the government suggest took intervence through various policies: (i) price incentives; (ii) liberalization of the internal marketing; adoption processing technology, quality improvement; (iii) the provision of access to information and access to markets refined products; (iv) assistance to the mechanization of replanting and new small farmers; (v) the flexibility of export credit financing with longer credit term Islamic instruments and commodity trading opportunities.

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