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Responding to the Looming Food Crisis and Managing Political Stability in Indonesia

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Introduction

A new wave of food insecurity is predicted to hit many countries, including Indonesia. This looming food crisis can be attributed not only to the war in Ukraine and the COVID-19 pandemic, which have disrupted the global food supply chain, but also to other conflicts, natural disasters, climate change, and unsustainable agricultural practices that have threatened the global food system for some time. The global food price index began to rise in September 2020, peaking in March 2022 (Food and Agricultural Organization, 2022). As of July 2022, the index was still about 40 percent higher than the 2014-2016 average.

When food prices soar, like during the global food crisis of 2007-2008, there is immense domestic political pressure for food-exporting countries to ban the export of agricultural and food commodities. Although export bans do not necessarily lower prices, as evidenced by Indonesia's recent palm oil export ban (Wihardja and Patunru, 2022), they usually have adverse repercussions in other parts of the food system, such as raising global prices, especially if the ban is imposed by a major producer and exporter of the food commodity, causing farmers' incomes to plummet, and disincentivizing future planting and harvesting.

At the same time, the World Trade Organization (WTO), which governs the international trade system, has tools to limit protectionism around imports, but lacks effective mechanisms limiting governments' ability to ban exports (Barret, 2022). Given that since export bans can amplify panic and engender full-blown crises, this has created an unnecessary and dangerous loophole in the global food system. With the ongoing war in Ukraine, food is increasingly being used as a diplomatic weapon (Schiffling and Kanellos, 2022). As of late May, 10 percent of world calories were under export restriction by at least 23 countries, including Indonesia.

The war in Ukraine has also caused energy prices to soar, particularly oil and gas. Gas is the raw material used to produce urea fertilizer, a key input for the food production system. Similarly, oil is a key input for the global logistics and trade system. After the war in Ukraine broke out in February 2022, the threat of a global food crisis has become apparent, in part because of the skyrocketing input costs of food crop production.

Examples from other countries show that increasing food prices combined with a weak social protection system led to an increased risk of political instability. For example, the global food crisis of 2007-2008 triggered domestic political unrest and civil wars in about four dozen countries, including Libya, Tunisia, Syria, and Yemen (Barret, 2022). Fortunately, the impact of the global food crisis on the Indonesian economy was not quite as significant, as the rice production remained normal due to favorable weather. Management of rice stock and price stabilization policies were quite effective, so there was not a significant price surge during the crisis. In part because food prices had remained relatively stable under his leadership, President Yudhoyono was reelected for a second term in the General Election of 2009.

Indonesia's food prices are already high to begin with in comparison with its neighbors in the region. Between 2012 and 2020, rice prices in Indonesia were, on average, more than double those in Vietnam, Myanmar, Cambodia and Thailand, and about 25 percent higher than those in the Philippines (World Bank, 2020a). Moreover, there are weaknesses and gaps in Indonesia's social protection system (World Bank, 2020b). For example, the current system is unable to update the social registry used for targeting social assistance programs (DTKS) with newly impoverished households (households that fall into poverty as a result of sudden-onset shocks, such as COVID-19 or natural disasters) because the on-demand window/application, which allows households to self-register for assistance, is limited. Social assistance coverage is also biased in favor of poor households with children and against the elderly and disabled.

Amidst the ongoing fallout from the COVID-19 pandemic, the high inflation rate, which has doubled between March and June of this year, will test whether the Jokowi administration can manage high inflation, especially on food, and maintain political stability. With the presidential election coming in 2024, a prolonged increase in food prices may undermine his party's chances for reelection. This article analyzes how Indonesia is trying to respond to the looming food crisis to maintain political stability.

The Global Food Economy

The disruptions in the global food supply chain that have emerged since the onset of the COVID-19 pandemic have been compounded by geopolitical tensions in Eastern Europe and elsewhere. In June 2022, the price of wheat¹ reached a record high of US\$ 650 per ton, more than three times the average price in 2019. Fortunately, global rice prices, which had been high since the onset of the pandemic, have started to stabilize. Rice production performance in Thailand and Vietnam is quite good, and has contributed to the stabilization of global rice prices. In Indonesia, rice production in 2021 showed signs of recovery, although the harvested area dropped drastically from 10.66 million hectares in 2020 to 10.41 million hectares in 2021, a decrease of 245,000 hectares (2.35 percent).

Vegetable oil prices have also increased in the wake of the food crisis and the global economic crisis. The global price of vegetable oil peaked during the global food crisis of 2007-2008, the period of high commodity prices in 2011, and the COVID-19 pandemic.²

¹ SRW

² Indonesia's CPO has always been a serious environmental concern for the European Union, who discriminates against biodiesel products coming from Indonesia's palm oil. Indonesia currently files a legal case of CPO discrimination by the European Union to the Dispute Settlement Body (DSB) in the World Trade Organization.

As the domestic retail price of cooking oil soared uncontrollably, in April 2022, Indonesia gave in to political pressure to ban exports of crude palm oil (CPO) and its derivative products in order to secure domestic supply. Around the same time, India also prohibited exporting wheat and sugar to secure supplies for its domestic needs. Malaysia banned the export of live chickens to Singapore. In the case of Indonesia, the blanket palm oil export ban caused Indonesia to lose export earnings but did not reduce domestic prices. Moreover, even though the export ban was soon lifted, by May 2022, the effects of the export ban on upstream palm oil farmers were deleterious. The price of fresh fruit bunches (the raw material used in palm oil mills) has remained at a record low of Rp 600 per kilogram since mid-June 2022, which has significantly reduced the incomes of smallholder palm oil farmers.

The threat of a global food crisis has also resulted from the increasing prices of production inputs—primarily fertilizers, but also energy. Farmers are the most severely affected. The war in Ukraine has caused global fertilizer prices to soar, as both Russia and Ukraine are major producers of gas used in fertilizer production. The price of urea in the global market had already increased before the war from about US\$ 400 in September 2021 to nearly US\$ 1,000 per ton in November 2021 due to an increase in international oil prices. The price of non-subsidized urea fertilizer in Indonesia rose from Rp 7,000 per kilogram in January 2022 to over Rp 10,000 per kilogram in February 2022, making it very expensive for the Indonesian government to offer the subsidized price of only Rp 2,250 per kilogram. Farmers in Indonesia and other countries have had to bear the burden of surging food and agricultural production input costs. Inflation at the producer level, as measured by the producer price index (PPI), has been much higher than inflation at the consumer level (CPI), suggesting farmers have been unable to pass high input costs on to consumers.

Indonesia's Policy Response

First, since early 2020, Indonesia has introduced policy initiatives to boost food production and productivity through both land expansion and intensification strategies. Indonesia developed food estates outside Java in Central Kalimantan, North Sumatra, East Nusa Tenggara, etcetera. 100,000 hectares of land have been allocated for agriculture in the districts of Kapuas, Pulang Pisau, and Gunung Mas in Central Kalimantan. There, rice, maize, cassava, horticulture crops, and estate crops are cultivated primarily by smallholder farmers and some state-owned enterprises (SOEs). A number of smallholder farmers were also involved in the expansion of food estates in the district of Humbang Hasundutan in North Sumatra, focusing mostly on shallots, chilis, potatoes, and some garlic. New agricultural land was also opened in the district of Central Sumba in East Nusa Tenggara to cultivate rice, maize and sorghum.

Unfortunately, after two years, the food estates have not significantly contributed to Indonesian food production and food security. Problems with acidic soil, low fertility and peat land conversion need to be resolved in a more systematic way for the initiative to meaningfully increase food production and security. Converting forests and peatlands into agricultural land for food production has a high risk of causing sustainability issues, especially if water management and drainage systems disturb natural water storage and peat dome systems. Moreover, new agricultural lands generally take some time to start to be productive. Therefore, we cannot expect to see immediate

production increase and productivity gains.

Second, intensification strategies have been implemented in existing food production operations, primarily for rice, maize and horticulture crops. Integrated pest management and more *equal* distribution and utilization of chemical fertilizers, pesticide and herbicides among smallholder farmers have been promoted across all production centers. Intensification through the use of high-yielding varieties and drought and flood-resistant varieties is necessary to increase food production, and will be an essential element of the adaptation strategy for climate change in the years to come. In the last two years, such intensification strategies have shown positive results, though they still need to be monitored continuously. Data from the Central Agency of Statistics (BPS) shows that rice production in 2021 was recorded at 54.4 million tons of milled dry grain (GKG), the equivalent of 31.4 million tons of rice, which was higher than the 30 million tons of rice consumption. Rice productivity in 2021 was recorded at 5.2 tons per hectare, an increase of 1.96 percent from 2020. By April 2022, rice production had already reached 13.5 million tons, almost half of 2021's annual figure (Badan Pusat Statistik, 2022).

Third, the government has also transformed its approach to the food system by considering both on-farm and off-farm activities, namely production, processing, distribution, trade, and consumption. This more comprehensive approach aims to achieve improved food security, social welfare, and environmental welfare outcomes in general. In this context, food security includes the dimensions of food availability, food accessibility, and food utilization. Food sustainability entails positive food system outcomes for: (1) social welfare, which includes employment, income levels, human capital, social capital, and political capital, and (2) environmental health, which includes stocks and flows within ecosystems, ecosystem services, natural capital, etcetera. In 2021, the Government of Indonesia's Presidential Regulation 66/2021 established a National Food Agency (NFA) that will govern the three important dimensions of food security—availability, accessibility and utilization. Together with other government agencies/ministries and state-owned enterprises, NFA is responsible for maintaining adequate food availability, managing food buffer stock, and diversifying food consumption for a healthier and more balanced diet while promoting the consumption of local foods (see also Wihardja and Negara, 2022).

Fourth, the government is working to ensure a sustainable and resilient food system (SRFS) that can provide a healthy and balanced diet. Pursuing SRFS is also highly compatible with poverty alleviation, sustainable natural resource management, ecosystem conservation, and climate change mitigation and adaptation. Food production through chemical fertilizers, excessive pesticides, and the conversion of natural forests into super-intensive agricultural zones is not sustainable. SRFS will be able to restore degraded land and ecosystems back to their natural state, resulting in higher productivity. For example, this can be done through the development of organic agriculture and the combined, balanced use of organic and chemical fertilizers.

Fifth, the government is working to improve the effectiveness of the Temporary Unconditional Cash Transfer program (BLT) and social assistance programs like the Family Hope Program (PKH) and Non-Cash Food Assistance (BPNT) in both urban and remote rural areas. This effort is combined with initiatives to mentor and empower farmers in precision agriculture, digitize food value chains, and support ABGC quadruple helix cooperation (academics, business, government, and civil society), innovation ecosystems and the integration of more inclusive research and development (R&D) strategies.

Regional and Global Food Trade and Cooperation

Very few countries are capable of being both fully self-sufficient and food secure. Indonesia is no exception. Food imports in Indonesia have increased in both amount and share of total goods imports, rising from US\$ 11.5 billion (8.4 percent) in 2010 to US\$ 22.6 billion (11.5 percent) in 2021 (Comtrade, 2022). Although only about one-quarter of food consumed globally is traded internationally, international trade plays a key role in stabilizing food prices in many food-importing countries, as prices are very sensitive to any marginal deficit in the market (Barret, 2022). Indonesia, as a relatively large food-importing country, depends on international trade to manage its food deficit and stabilize prices.

The issues of import and export bans on food and deciding to engage in international food trade are behavioral in nature and are not unrelated to the lack or non-existence of global and regional food cooperation such as global and regional food buffer stock. Fear of impending food shortages, whether real or perceived, tends to trigger countries and households to shift from “just in time” to “just in case” mode, leading to self-fulfilling prophecies as hoarding by countries and households amplifies panic and engenders full-blown crises. But with cooperation, countries and households can resist hoarding or banning exports when there is a hiccup in food supply or prices. Confidence in the international food trade can ride out the storm. Countries are less likely to resort to the food self-reliance approach and more likely to engage in international trade if there are regional or global food stock buffers available and ready to be deployed when disruptions occur in the supply chain, weather, geopolitics, or elsewhere.

Indonesia, as G20 President and ASEAN 2023 Chairman, could help secure open trade during the ongoing global food crisis and make concrete steps towards global and regional food cooperation. Under the G20, Indonesia could build on and strengthen existing mechanisms, such as the Agriculture Market Information System launched during the 2011 G20 Presidency, and coordinate efforts with the UN Crisis Response Group and Global Agriculture and Food Security Program. Through ASEAN, Indonesia could leverage existing mechanisms, including the ASEAN Food Security Reserve Board, the ASEAN Food Security Information System, the ASEAN+3 Emergency Rice Reserve, and the ASEAN Integrated Food Security (AIFS) Framework and Strategic Plan of Action on Food Security in the ASEAN Region (SPA-FS) 2021-25.

Areas of contention

It is important that Indonesia’s efforts to increase food security align with its commitment to sustainability and reducing greenhouse gas emissions. Agricultural activities are responsible for 19 to 29 percent of total global greenhouse gas (GHG) emissions (World Bank, 2021); agricultural emissions make up the largest proportion of GHG emissions in six out of ten ASEAN economies. Greening unsustainable agricultural practices is crucial for sustainable food security.

Moreover, Indonesia’s food security should also be viewed in the context of the government’s ambitious Crude Palm Oil (CPO)-based biodiesel policy, which could create tensions between energy and food security. The CPO-based biodiesel policy, which stipulates that fossil fuels must be blended with 30 per cent palm oil, is aimed to secure energy, reduce carbon emissions, and reduce Indonesia’s

trade deficit. However, a study found that this plan, if followed through 2030, could cut CPO export revenues to a greater extent than it saves on diesel imports, and would infringe on palm oil supply for food, necessitating the expansion of land used for palm oil production by 48 to 76 percent to meet the total demand (Halimatussadiah et al, 2021).

Managing a food crisis is crucial for any democracy to maintain its legitimacy and political stability. Indonesia's response to the looming food crisis has been comprehensive, ranging from expanding and intensifying food production to expanding and reforming social assistance programs. But the response has also been peppered with populist and fallible policies, such as a temporary blanket export ban on palm oil. Given that food supply chains have already been regionalized or globalized, nationalistic protectionist measures can only backfire. Food supply chains need to be regarded as global public goods. Accordingly, countries around the world should work cooperatively to solve the current food crisis. ■

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