

KADIN INDONESIA

Indonesian Chamber of Commerce and Industry



November 18, 2011

Statement and Talking Points for Pak Suryo Sulisto at the IABC Regional Business Forum

Excellencies,

Ladies and Gentlemen,

On behalf of the Indonesian Chamber of Commerce and Industry (KADIN Indonesia), I would like to thank you for inviting me to speak at this important event. I am delighted to see such a great number of business and government representatives in attendance. This is a very good indicator of the high levels of interest in exploring the opportunities and challenges involved in the provision of food and water in our region.

I am going to speak today about ASEAN's strong economy and the implications of this for food security. Today we are confronted with the unfortunate contradiction that despite having economies that are growing faster than the economies of almost all other regions in the world, we are also confronting rising food insecurity. Between growing populations, climate change, decreasing land and the

volatility of the global economy, ensuring food security has become an increasing challenge.

This is not right. We – Australia, Indonesia and our ASEAN counterparts—need to work together to wipe out this contradiction. Our businesses, civil society and governments need to work together to turn this around so that a growing economy means growing food security.

I will start today with a short overview of the ASEAN economy with an emphasis on the food and agricultural industry in Indonesia. I will then discuss some of the challenges to developing food security in ASEAN. Thirdly, I will share ways in which the private sector can engage to enhance food security.

As a whole, ASEAN is doing quite well, despite the global financial turmoil. We recovered quickly from the 2009 global financial crisis and seem to be weathering the current crisis. After the 2009 crisis, growth returned quickly and positive GDP-growth rates are projected for the near future. In 2010, ASEAN GDP per capita (using purchasing power parity figures) was over \$5,000. In 2011 we expect to reach \$5,500 per capita. Growing consumer markets and rising confidence among investors (esp. with regards to Indonesia) indicate continuous capital inflow.

When we look to how ASEAN can weather economic crises, now and in the future, we should consider the following factors: first, FDI within ASEAN member countries accounted for 26% of the overall FDI

for all of ASEAN in 2009, giving our economies a certain amount of buffer against global turbulence. Trade within ASEAN grew at over 31% in 2010.¹Intra-regional trade within ASEAN +3 countries was even more remarkable, reaching 51.7% in 2009.²

This intra-regional trade is being driven by increasingly important production networks as well as several important intra-regional free trade areas, especially the China ASEAN Free Trade Agreement (CAFTA). Since its launching last year, CAFTA instantly became the world's largest Free Trade Area in terms of population – creating a market for exchange and cooperation on a scale that has never been seen before. Indeed, the potentials seem great – in just one year there has been a 38% increase in trade and investment between ASEAN and China.

Despite this rosy outlook, there are many elements that must be strengthened in order to achieve a resilient and sustainable ASEAN economy that incorporates the private sector.

One of the key issues that need to be addressed is food security.

Within ASEAN, a significant percentage of the population is dependent on agricultural production for their livelihoods. In Indonesia, it's about 40%, most of which are smallholders. Food prices also impact inflation. According to Indonesia's Institute for the

¹ According to statements by officials at Manado conference.

<http://www.google.com/hostednews/afp/article/ALeqM5iw1ogrHETxKmc1dTweFbKSJ5d9EQ?docId=CNG.0376d57234c6415660e5719f85d6051f.21>

² ISIS focus no 4 2011.

Development of Economics and Finance, about 35% of inflation in Indonesia is attributable to the volatility of food prices.³

When it comes to poverty reduction, GDP growth in the agricultural sector is twice as effective as other sectors. And experience repeatedly shows – in China, Ghana, Viet Nam and elsewhere – that smallholders are an important part of agricultural growth. Therefore, we need to carefully consider the extent to which production should be shifted to larger, more industrial farming techniques. While there are many benefits to be made with a shift towards more industrialization (economies of scale, increased levels of investment resulting in increased ability to import technology etc...), we need to ensure the continuation of the smallholders as well.⁴

Recognizing the need to address the issue of food security before it reaches a crisis level, ASEAN ministers in 2009 adopted the ASEAN Integrated Food Security Framework and Strategic Plan of Action on ASEAN Food Security. This agreement recognizes that sustainable food production is an important aspect of securing food security, which could be achieved through improving agricultural infrastructure development, minimising post-harvest losses, reducing transaction costs, maximizing agricultural resources potential, promoting agricultural innovation including research and

³ <https://mail.google.com/mail/#search/food+security/13367cb17daa3034>

⁴ <http://www.forumblog.org/blog/2011/01/smallholders-play-fundamental-role-as-business-partners-in-feeding-the-world-kanayo-f-nwanze-.html>

development on agricultural productivity, and accelerating transfer and adoption of new technologies.

In ASEAN, connectivity and logistics are major hurdles that hamper our efforts to address food security because they drive the costs of distribution up. For example, in Indonesia a bag of cement costs \$10 on Java but can be as high as \$50 in places like Kalimantan and Papua. The same is true for food items. All too often we hear that it is cheaper in Jakarta to buy an orange from China than to get one from Kalimantan. Thus the question of productivity only addresses part of the problem in our region. If we really want to find solutions to food security we must enhance our connectivity and logistics.

In Indonesia, food security has become a national priority as domestic supplies come under pressure from the country's vulnerability to flooding and drought and demand increases in line with the size of the population and the more caloric diets of the rising middle class.

Indonesia is a leading producer of many agricultural commodities:

- #1 in the world for Palm oil
- #3 for Cocoa
- And #3 for rice production

However, as a huge consumer of rice, domestic production has not been enough and Indonesia frequently has to import from

neighbouring countries like Thailand. Between January and September this year, Indonesia imported 1.87 million tons of rice and 1.51 million tons of corn.⁵

We are also large importers of other commodities:

- #1 in Asia for wheat imports at about 6 million tons this year, 60% of it coming from Australia
- #1 SE Asian importer of corn in 2011, driven largely by the growing middle class's appetite for chicken

However, with the right policies and technologies, Indonesia can become an important global food producer in the next decade.

Substantial gains in food security can be realized through investment, innovation, policy and other improvements. However, realizing these gains will require an exceptional level of collaboration among stakeholders in the agricultural value chain, including governments, companies, multilateral and civil-society organizations, farmers, consumers and entrepreneurs. Stakeholder alignment around shared priorities and large-scale initiatives is therefore key to success.

Indonesia also needs to ensure that our agricultural practices are economically viable. This means developing farming systems that are more efficient. We need to focus on developing more sophisticated farming systems that addresses a wide range of issues

⁵ <https://mail.google.com/mail/#search/food+security/13367cb17daa3034>

including farm size, enterprise mix, business targets, risk strategy, cash flow and management practices.

There is a big opportunity in this sector that has not been developed to reach its full potentials: cattle farming. Australia has been a big cattle exporter to Indonesia in the past several years. In 2010, Australia cattle exports to Indonesia reached \$286 million, the second biggest commodity exported from Australia to Indonesia after wheat. The trend has been increasing over the years, but it may decline in the near future following a greater drive for cattle self-sufficiency in Indonesia, estimated to happen in 2014⁶. Despite the self-sufficiency, we hope we can continue the cooperation with Australian breeders by developing cattle farms in Indonesia. We have abundant land and resources needed for cattle farming, and we can empower local breeders in cooperation with Australian breeders. We believe this would be one of the greatest areas for growth in the sector.

In all of these areas, Indonesia and Australia can be strong partners to improve food security for our own countries and for others. Indeed, with the abundant fertile land and seas in both countries, the opportunities are great. Combine Australian technology and organizational capacity with Indonesia's large work force and vast untapped potentials in agriculture and farming, and it seems to me

⁶ <http://finance.detik.com/read/2011/03/04/104336/1584412/4/ri-baru-bisa-stop-impor-sapi-di-2014>

that we can find many complimentary partnerships that maximizes both countries' competitive advantages.

The current trade in food between Indonesia and Australia is somewhat imbalanced. According to our calculations, Indonesia currently imports over USD 1.6 billion worth of food products from Australia, but we only export about USD 153 million. This is a difference of 10 times larger in Australia's favour. This balance can be shifted so that Australia imports more food from Indonesia.

We recognize and appreciate that Australia already has several programs that directly and indirectly enhance food security.

The Australian Centre for International Agricultural Research (ACIAR) supports over 47 ongoing collaborative projects in Indonesia, with a particular focus on animal sciences, agri-business, crop protection, fisheries and forestry research and development. Other programs aim to improve rural agriculture enterprises in NTT as well as various infrastructure projects.

But much more can be done – especially with the involvement of the private sector.

Working with our Australian colleagues we are confident that we can find many mutually beneficial opportunities to increase the world's food supply.

I believe that as the citizen of a country and a region that is thriving, we have a duty to help those around us.

I hope that my comments are useful and we at KADIN Indonesia look forward to more extensive dialogue – and more importantly – concrete actions and steps to enable the private sector so that it can play its role in food security.

Thank you.

-----**Further Talking Points**-----

Australia can do big business with Jakarta

THE fourth most populous nation, the third biggest democracy, our second nearest neighbour and the world's largest Muslim country -- Indonesia is by any account a giant.

One area where we should be doing much more is the trade and investment relationship.

According to the Department of Foreign Affairs and Trade, Indonesia is Australia's 13th biggest and most significant trading partner, with two-way trade totalling \$9.8 billion last year. Compare this with Singapore. Its economy is less than a third of Indonesia's and its population about one fiftieth, yet Singapore is our sixth biggest trading partner, with two-way trade totalling \$16.8bn.

Some of australia's major companies are there, including Leighton, ANZ, BlueScope, Thiess, Santos and the Commonwealth Bank -- but judging by the economic trajectory there is room for many more.

Already the 18th largest economy in the world, Indonesia is forecast by the IMF to achieve robust GDP growth of more than 6 per cent this year and next, and the fund is full of praise for the overall macroeconomic outlook.

ASEAN-Australia-New Zealand Agreement

(Need to add information)

Proposed Bilateral Free Trade Agreement

(Need to add information)

Joint Ministerial Statement ASEAN Economic Ministers' Retreat

Bali, Indonesia, 3 May 2008

1. The ASEAN Economic Ministers discussed the important issue of food security, and especially noted with concern the current high prices of rice, caused by factors such as increased demand; increased cost of inputs; decreased land devoted to agriculture; and temporary disruptions such as poor weather conditions and plant disease. The Ministers expressed concern that the longer-term shortage of rice supply might have an adverse impact on the economies of ASEAN Member States.
2. The Ministers affirmed that access to adequate and reliable supply of rice, and stable prices are fundamental to the region's economic and social well-being.
3. The Ministers agreed that effective responses would require a broad range of measures. The Ministers recognised the importance of creating suitable and favourable conditions to increase productivity through, among others, effective transfer of technology, research and development, increase in agricultural land, and substantially increased public and private investment.
4. The Ministers pledged to continue fair trade practices and to achieve an orderly regional rice trade.

ASEAN Integrated Food Security (AIFS) Framework and Strategic Plan of Action on ASEAN Food Security (SPA-FS)

Food security has long been an important agenda item of ASEAN. In response to highly fluctuating food prices coupled with the global financial crisis that started in 2008, ASEAN needs to take a strategic and comprehensive approach towards providing long-term food security in the region.

To ensure long-term food security and to improve the livelihoods of farmers in the ASEAN region, ASEAN Leaders adopted the ASEAN Integrated Food Security (AIFS) Framework and the Strategic Plan of Action on ASEAN Food Security (SPA-FS) at the 14th ASEAN Summit in 2009. The AIFS Framework and the SPA-FS, which are

planned for a five-year period (2009-2013), provide measures, activities and timelines to facilitate cooperation in the implementation and monitoring process.

Key Components of the AIFS Framework

Strengthening food security and emergency/shortage relief is a core measure in addressing food security in the region. It is aimed at strengthening national food security programmes and activities, and developing regional food security reserve initiatives and mechanisms.

Sustainable food production is an important aspect of securing food security, which could be achieved through improving agricultural infrastructure development, minimising post-harvest losses, reducing transaction costs, maximizing agricultural resources potential, promoting agricultural innovation including research and development on agricultural productivity, and accelerating transfer and adoption of new technologies.

In addition, food security-related initiatives will be identified and promoted.

These include providing an effective market to encourage sustainable growth in food production, encouraging greater public and private sector investment in food and agro-based industry development, and strengthening integrated food security information systems (i.e. early warning, monitoring and surveillance mechanisms).

Emerging issues related to food security such as the development of bio-fuels and impacts of climate change on food security also form an integral part of the AIFS Framework.

The ASEAN Ministers on Agriculture and Forestry in coordination with other relevant ASEAN sectoral bodies are responsible for establishing mechanisms for the implementation and monitoring of the AIFS Framework and SPA-FS. Consultations with relevant bodies and stakeholders at the regional and national levels will be promoted to obtain relevant inputs and cooperation and to promote a greater sense of ownership. In addition, partnership and cooperation arrangements with international organisations and donor agencies such as the Food and Agriculture Organisation, World Bank, International Rice Research Institute, International Fund for Agricultural Development and Asian Development Bank will be encouraged and promoted.

FOOD IMPORTS AND EXPORTS FIGURES

Food Imports and Exports figures between Indonesia and Australia were sourced from the International Trade Center, based on UN's Commodity Trade Statistics database.

We looked at the export and import data for every commodity and calculated the figures for food commodities out of the entire commodities traded.

The full list of commodities can be found in the accompanying Excel spreadsheet.

