



# Comparison of Indonesia's Export-Import with China After the Agreement on Agriculture (AoA)

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## Abstract

The agricultural sector is the most important sector in the Indonesian and Chinese economies. The role of this sector is not only in international trade activities, but also plays a role in the domestic economy, including food sufficiency. The agricultural policies of Indonesia and China are not only oriented to increasing agricultural productivity for trade purposes, but also to improving the standard of living of the people, especially farmers. The flow of economic liberalization brought by the World Trade Organization (WTO) has become a dilemma for Indonesian and Chinese agriculture. On the one hand, the WTO accession decision opens access to wider international trade, but on the other hand, both countries must protect their agriculture through the determination of prices for agricultural products by the government. This paper aims to find out the comparison of Indonesia's exports and imports with China in the field of trade in agricultural products after the implementation of the Agreement on Agriculture (AoA) or agricultural agreements which are part of the WTO from January 1, 1995 to the present. The results of the study obtained that the comparison of Indonesia's exports and imports with China was more optimal. From the research results, it can be used as a comparison for the government in determining further policies to get maximum results.

**Keywords:** export-import, Agreement on Agriculture, World Trade Organization, Indonesia-China agricultural policy.

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## 1. Introduction

Indonesia and China are countries that both have privileges in their respective regions. Indonesia is the largest country and the largest area in Southeast Asia, as well as the largest total population. While in East Asia, China is the only country that has the largest area and at the same time the third largest country in the world. Indonesia and China have a vast area consisting of mountains, highlands, hills, and valleys, and these two countries have the same character when viewed geographically and in terms of population.

The main prerequisite for becoming a member of the World Trade Organization (WTO) is to carry out economic liberalization, which means eliminating various forms of trade barriers. Indonesia decided to become a permanent member of the WTO in 1995, while China joined the WTO at the end of 2001. Therefore, Indonesia and China must liberalize the economy, and the agricultural sector is one of the affected (Rahayu, 2014).

The participation of Indonesia and China in the WTO liberal trade organization certainly has implications for government policies in directing and making strategies in the agricultural sector. The Indonesian and Chinese governments benefit from joining the WTO, but on the other hand, they must maintain and protect their agricultural sector from increasingly fierce international competition after liberalization, especially when the Agreement on Agriculture (AoA) is implemented. The aim of the Agriculture Sector Agreement is to reform trade in the agricultural sector and create more market-oriented policies. This can strengthen the level of predictability and security of both importing and exporting countries. The agreement on agriculture entered into the WTO is actually the struggle of developing countries. During the Uruguay round, developing countries felt that international trade regulations only benefited developed countries because the aspects they covered gave a comparative advantage to the products of developed countries.

Based on the description of the problems mentioned above, this study aims to research and write problems related to the Export-Import Comparison between Indonesia and China after the Agreement on Agriculture (AoA). Related to the implementation of the Agreement on Agriculture (AoA) on export and import activities in the agricultural sector by the WTO, how the development of exports and imports of Indonesian and Chinese agricultural products after the implementation of the AoA and how the AoA policies. From the results of the study, it is hoped that it can be a reference for Indonesian government policies in the development of export-import of agricultural products with China.

## 2. Materials and Methods

### 2.1. Materials

The data used in this research are in the form of export-import data on the agricultural sector from Indonesia and China, which were obtained from the World Bank via the link <https://wits.worldbank.org/>. The data obtained will be analyzed to obtain the level of comparison of exports-imports from the two countries.

### 2.2. Methods

The design used in this research is a mix method with quantitative and qualitative approaches. Mix method is a research approach that combines or combines qualitative and quantitative forms. According to Sugiyono (2017), mix method research is a combination of quantitative and qualitative research methods. The combination or amalgamation of quantitative and qualitative research methods is used together in a study in order to obtain more comprehensive, valid, reliable and objective data. Quantitative research methods can be defined as research methods based on the philosophy of positivism, used to examine certain populations or samples, sampling techniques are generally carried out randomly, data collection uses research instruments, data analysis is quantitative with the aim of testing predetermined hypotheses. While the qualitative research method is called a new method based on the philosophy of post positivism as an interpretive method because the research data is more related to the interpretation of the data found in the field. The definition of descriptive is a method that functions to describe or provide an overview of the object under study through data or samples that have been collected (Setiawan et al., 2021).

## 3. Results and Discussion

The World Trade Organization (WTO) is an intergovernmental body, which took effect on January 1, 1995. Its main task is to promote free trade by reducing and eliminating trade barriers such as tariffs and non-tariffs (eg regulations); provide a forum for international trade negotiations; settlement of trade disputes and monitor trade policies in member countries. The WTO is an organization based on the 'rules of the game' which is the result of negotiations. These rules are also known as 'agreements'. The agreement must result from a series of negotiations carried out by all member countries on paper, and reflect the needs of the members (member driven).

Agreements in the WTO cover goods, services and intellectual property that contain the main principles of liberalization. It contains various commitments by countries to open markets and reduce tariffs and other trade barriers individually. The WTO agreement also contains provisions for dispute resolution between member countries and special and differential treatment for developing countries. As a consequence, member countries are asked to make transparent trade policies that refer to the provisions used in the WTO, as follows:

- Agreement on Agriculture (AoA)
- Textile Approval
- Service Sector Approval
- Intellectual Property Rights (HAKI)/TRIPs
- Anti-Dumping, Subsidies and Safeguards
- Non-Tariff Barriers
- Plurilateral Agreement.

### 3.1. Agreement on Agriculture in the World Trade Organization

The birth of the WTO on January 1, 1995 replaced the GATT, automatically bringing the agricultural sector into the multilateral trade framework through the Agreement on Agriculture (AoA). The aim of this AoA is basically to expand trade liberalization in agriculture and gradually reduce trade distortions in accordance with the rules in the GATT. The rule in question is that the type of protection that is quantitative in nature is not allowed and that protection must be applied non-discriminatory according to the principle of most favored nations.

As is known, exports from developing countries are mostly in the form of raw materials for agricultural products. There are only two agreements that benefit developing countries that have successfully entered the WTO, namely agriculture and textiles. The positive aspect of the AoA is that with the inclusion of agriculture in multilateral trade, developed countries that have been subsidizing agricultural production and exports must comply with regulations to eliminate all trade distortions, including by reducing these subsidies.

The negotiation of agricultural agreements at the WTO (AoA) essentially regulates three things, namely:

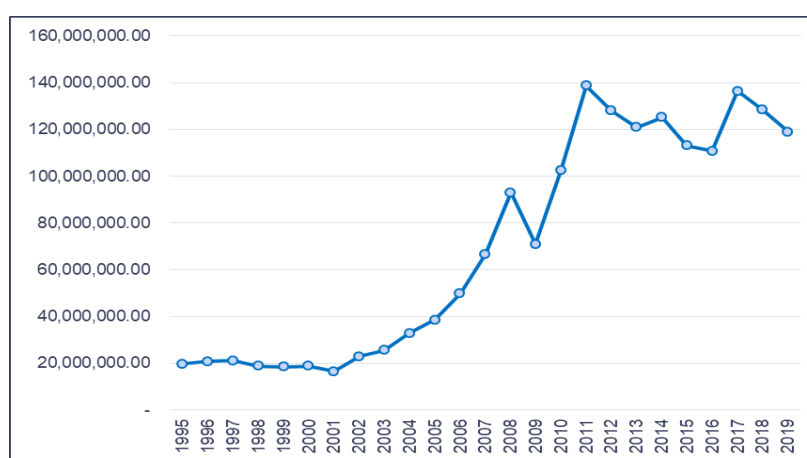
- a) Expansion of market access, often referred to as tariff reduction, because market expansion through exports to other countries is achieved by reducing tariff barriers in destination countries. Market access is also expanded through the gradual removal of non-tariff barriers into tariff barriers or so-called tariffs. It also regulates the quota tariff, namely the difference in the value of the tariff after the quota is exceeded. For developing and less developed countries there is special and different treatment.

- b) Cutting domestic support or domestic subsidies. The goal is also to increase market access, because by lowering domestic subsidies, domestic agricultural products will become more expensive, so that imported agricultural products can expand to other countries' markets. In agricultural agreements, the WTO distinguishes between support programs that affect directly by providing terms based on color, namely the yellow box (amber box), green box (green box), blue box (blue box), and minimalistic support.
- c) Cutting export subsidies, such as export credit. The goal is also the same as the two things above, to increase market access in other member countries.

So basically the AoA negotiations are aimed at increasing the volume of world trade in agricultural products by reducing or even eliminating everything that is a barrier in member countries.

### 3.2. Indonesian Agricultural Sector Export-Import

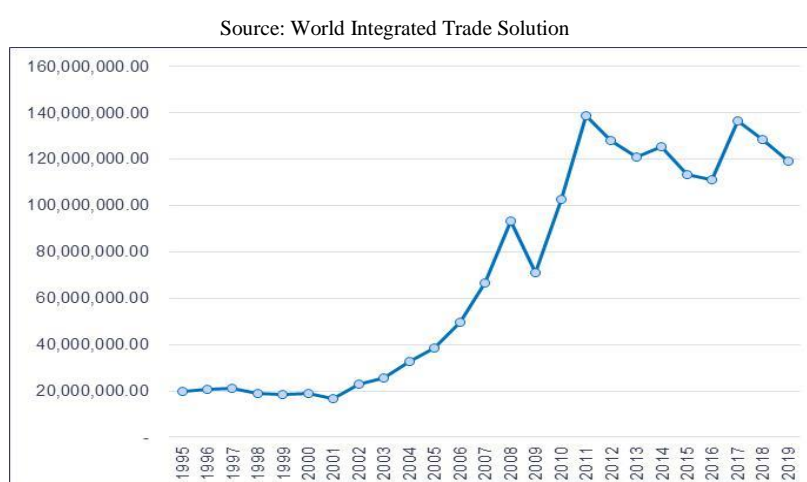
The development of the Indonesian economy in a positive direction is one of Indonesia's attractions for foreign countries to develop economic cooperation relations with Indonesia, such as China, Japan and Thailand. The economic cooperation relationship will improve the Indonesian economy, such as expanding Indonesia's foreign market by increasing exports of local products to other countries. Indonesia always strives to increase exports so that Indonesia's economic growth remains stable, so that the value of Indonesia's exports is now increasing due to the large number of requests from other countries (Safitri, 2014). The export chart of Indonesian Agricultural Products is as shown in Figure 1.



Source: World Integrated Trade Solution

**Figure 1.** Exports of Indonesian Agricultural Products (Food, Agricultural Raw Materials and Vegetables) (US\$)

The following graph of trade exports of food commodities and other agricultural products in Indonesia shows fluctuating results with an upward trend from 1995 to 2019. A significant increase occurred in 2010, 2011 and 2017. The graph of Indonesian Agricultural Product Imports is given as Figure 2.



Source: World Integrated Trade Solution

**Figure 2.** Imports of Indonesian Agricultural Products (Food, Agricultural Raw Materials and Vegetables) (US\$)

In Figure 2 above, which is a graph of imports of food commodities and other agricultural products in Indonesia, it also shows fluctuations. The decline occurred in 2009, 2012, and 2015. While the highest increase in imports occurred in 2011. However, it can be said that there was an upward trend during 1995-2019.

### 3.3. Agricultural Sector Policy In Indonesia

Agricultural policy in Indonesia underwent significant changes in each leadership period, also influenced by international agreements in the field of agriculture. The Soeharto government was the beginning of the formation of agricultural policies in Indonesia that were integrated with international organizations, one of which was the World Trade Organization (WTO). So Indonesia has been bound by the regulations in the WTO, especially related to regulations in the agricultural sector (Agreement on Agriculture/AoA). In the agricultural sector, Indonesia has bound all tariffs on agricultural commodities, either through the tariff process or by ciling binding, in line with the provisions in the Final Act and in the modalities for the establishment of specific binding commitments under the reform program. The number of agricultural commodity tariff points that are tied to the GATT reaches 13411 commodities, where each tariff item is reduced by a minimum of 10%. Overall, the average rate of reduction was 37%, higher than the provisions required by the WTO (24%).

From a study on the implementation and impact of the AoA in Indonesia conducted by PAN-Indonesia in collaboration with APRN and INFID, there are several points:

#### a) *Market Expansion*

Before the AoA agreement was implemented, Indonesia was listed as the 99th rice exporter in the world. But in 1999, Indonesia was listed as the number one rice importer in the world. The existence of rice imports led to the destruction of rice prices in the local market, and this had an impact on domestic food supply. The basic price of grain set by the government is Rp. 1,400/kg, while in the market it is only priced at Rp. 700-800/Kg. This is of course not appropriate according to farmers because the production costs incurred during the growing season to harvest are very high (Setiawan, 2003).

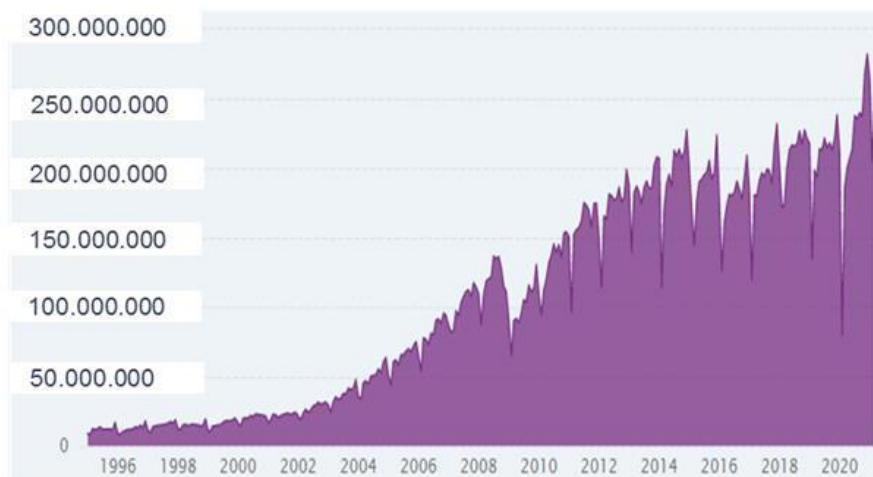
#### b) *Domestic Subsidy Reduction*

The Indonesian government has removed subsidies for agricultural inputs in the form of fertilizers, seeds and poisons for pests and plant diseases since 1998 (Setiawan, 2003). This of course causes a decrease in farmer productivity due to rising prices for components that support farmers' production. It is very unfortunate to see that most Indonesians carry out production activities in the agricultural sector

Through Law Number 7 of 1994, Indonesia has ratified the provisions of the WTO where the WTO requires its member countries to adjust the rules contained in the WTO Annex. One of them is Indonesia's food policy regulations, namely through Law Number 7 of 1996 concerning Food and Government Regulation Number 68 of 2002 concerning Food Security. Through the AoA of Indonesia's agricultural policy, there was a fairly massive liberalization scheme, Indonesia's unpreparedness in facing the onslaught of strong liberalization currents resulted in inappropriate policies. Indonesia's participation in the WTO makes it subject to negotiation policies that do not have a significant impact on farmers in Indonesia. The difficulty of people's access to land and the availability of land for production are the causes of food shortages, due to international and national trade policies and unavoidable natural and social conditions. On the other hand, Indonesia has quite good export potential because Indonesia has a diversity of flora and fauna that other countries do not have, this makes Indonesia have abundant natural resources. Geographically, Indonesia has a strategic location, so it has a great opportunity to carry out profitable international trade (Putra and Yasa, 2016).

In January 2020 at the National Working Meeting for Agricultural Development, the Ministry of Agriculture (Kementan) issued a policy in 2020 agricultural development to realize advanced, independent and modern agriculture. To achieve this goal, there are 4 aspects that need to be the focus of attention. First, increasing production and productivity through a national movement to increase productivity and production of agricultural commodities and increase the capacity of agricultural human resources. Second, reducing agricultural costs to low-cost agriculture through increasing efficiency and developing corporate-based areas. Third, the development and application of mechanization and acceleration of the use of technological innovation. And fourth, agricultural expansion through expansion of land use including swamps and other sub-optimal areas as well as water supply (irrigation, reservoirs, and other water structures). Then the Ministry of Agriculture also formed the Agricultural Development Strategy Command (Kostrani) to ensure the synergy and unity of the agricultural development movement in every line to focus on achieving targets, which will later become the coordinating node at the sub-district level that operates in an integrated digital-based system.

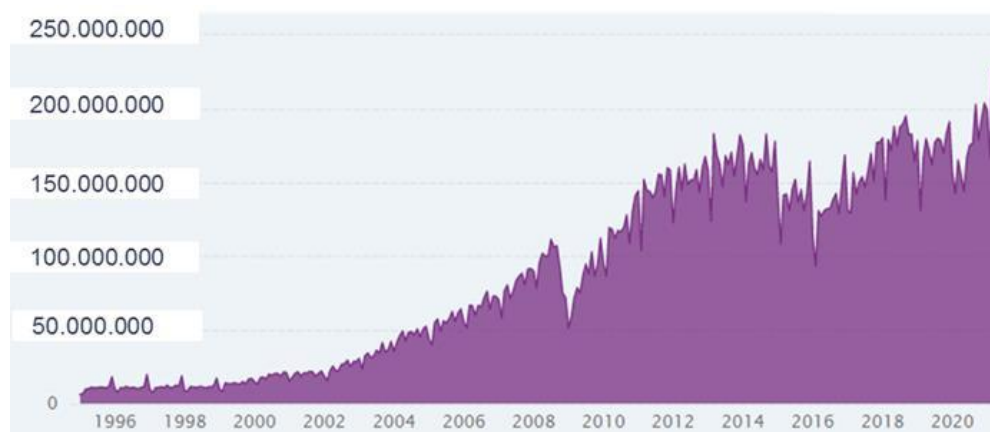
### 3.4. China Agricultural Sector Export-Import



Source: World Integrated Trade Solution

**Figure 3.** Exports of China's Agricultural Commodities (USD)

The export value of agricultural commodities in China experienced an upward trend, in Graph 3 the decline in exports occurred in 2020. This was a result of soaring cases of Covid-19 which slowed China's export-import growth. As it looks like the graph in Figure 4.



**Figure 4.** Imports of Chinese Agricultural Commodities (USD)

From 1995 to 2020, the development of imports of agricultural commodities in China experienced an upward trend in general. However, in 2009 and 2016 there was a drastic decline in the value of Chinese imports. The increase in China's trade balance is caused by one of them, namely the country's export activities. The increased volume of export commodities boosted the trade balance. The increase in China's export of agricultural commodities is due to several factors, such as Chinese products which have lower prices and good quality so that they can compete with agricultural commodity products from other countries. In addition, there are several policies implemented by the Chinese government to improve the quality and productivity of its agricultural products, including:

- a) Build modern agricultural infrastructure
- b) Build several agricultural industries
- c) Leaving conventional farming methods
- d) Establish a special bank for agriculture.

In addition, China has also entered into free trade agreements with various countries in its export-import activities. The free trade area eliminates or reduces barriers to trade in goods, both tariff and non-tariff, thereby facilitating exports and imports and reducing the burden on exporters to sell their products to China.

### 3.5. Agricultural Sector Policy In China

Agriculture Minister Tang Renjian said that China would balance food security and economic growth by pushing for reforms and increasing the revitalization of rural land. This policy includes the transfer and leasing of rural land, which is a core issue in helping the rural population become more prosperous as their current income lags behind that of the urban population. Policies to modernize agricultural production and improve agricultural infrastructure may become important new drivers of the economy in the years to come. China will use technology, including genetically engineered organisms to increase crop yields given limited agricultural land and water resources. The government also provides grain subsidies to farmers and ensures to produce and store grain to anticipate external environmental uncertainties.

The development of smart farmer technology is one of the innovations in the Chinese agricultural sector so that farmers can plant without soil and sunlight. The innovation of new seeds and also insect venom is an alternative for the Chinese government in developing its agricultural sector in order to save time and solve agricultural problems effectively. The Chinese government will place greater pressure on regional interests to increase grain yields and support its domestic seed industry as the country strengthens its focus on food security in the wake of the Covid-19 pandemic. In the China Agricultural Policy Document published by China's cabinet, the State Council, it noted that Communist Party committees will also assume responsibility for food security, in addition to local governments. China will build a national food security industrial area, a plan outlined at an important economic policy meeting in December, the document said. The industrial area would link all of the major grain-growing regions, officials said at the time. The document also reaffirms new priorities in the seed sector, which is seen as key to food security, by urging the faster implementation of major scientific projects in plant breeding.

### 3.6. Comparison Of Indonesia VS China Agricultural Policies

The government's policy in implementing the AoA has not been maximized; this is reflected in the existence of food scarcity due to the difficulty of farmers' access to land or land for production, the government's readiness to support farmers, and the fulfillment of domestic food needs. The agricultural policies designed by the Indonesian government are very comprehensive and integrated. However, its implementation needs to be monitored and controlled regularly so that it can be achieved in accordance with what has been determined. However, the plan lags far behind what is being launched by the Chinese government. The innovation launched by China can be one of the solutions that can be imitated, the transfer of conventional farming methods to modern methods is very necessary given the development of an increasingly sophisticated era that is slowly changing to digital. Improving the quality of local products also needs to be considered, in order to compete with foreign products that are competitors in this agricultural commodity. According to the Center for Indonesia Policy Studies (CIPS). Of the 264 million people in Indonesia, only 4 million are farmers. And according to the ADB in 2019, the number of farmers in China was 202.6 million. The striking difference here is that Chinese farmers get direct support from the government such as seeds, modern agricultural tools and also access to irrigation which in this decade the Indonesian government has begun to imitate. Then basic infrastructure is also provided by the Chinese government such as roads and electricity. However, there are similarities between Chinese and Indonesian agriculture, namely the land area is less than 1 hectare. Then direct assistance is given to old and or less productive farmers in the form of assistance of IDR. 800,000 per month, so that their agriculture can be continued by their children and grandchildren and the stability of their productivity is quite high because the Chinese government guarantees their old age. China is developing agricultural technology using smart farmers, which allows farmers to grow crops without soil and sunlight. This smart farmer can increase time efficiency and also increase income many times. In fact, new seed innovations have also been developed for planting time efficiency, plus insect venom which is effective in overcoming agricultural problems.

## 4. Conclusion

Based on the description above, the birth of the World Trade Organization (WTO), January 1, 1995, automatically brought the agricultural sector into the multilateral trade framework through the Agreement on Agriculture (AoA). The purpose of this AoA is basically to expand trade liberalization in agriculture and gradually reduce trade distortions in accordance with the rules in the GATT. Basically, the Agreement on Agriculture (AoA) contains three main elements, namely market access, reducing domestic subsidies, and cutting export subsidies.

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