THE EFFECTS OF IMPORT TARIFF ON DEMAND AND FARM PRODUCTIVITY OF SOYBEAN INDUSTRY IN INDONESIA

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THE EFFECTS OF IMPORT TARIFF ON DEMAND AND FARM PRODUCTIVITY OF SOYBEAN INDUSTRY IN INDONESIA

By

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THE EFFECTS OF IMPORT TARIFF ON DEMAND AND FARM PRODUCTIVITY OF SOYBEAN INDUSTRY IN INDONESIA

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September 2008

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Soybean industry plays an important role in the Indonesian economy. For many years, the country has an excess demand of soybean. Indonesian government has chosen to import soybean to meet the shortage of the domestic supply. However, the import has increased rapidly over the years. This dependency has become a serious problem in maintaining food security in the country.

The general objective of this study is to investigate why the domestic demand of soybean relies on the imported soybean. Further, there are four specific objectives. First, this study attempts to determine factors that affect to the import demand of soybean. Second, it is carried out to analyze the effect of import tariff on the soybean industry in the country. Third, it is an
attempt to estimate the producers’ surplus and lastly, it is done to analyze the productivity of soybean farming in the country.

In this study, the market model of soybean industry, estimated by the two stages least squares method is used to determine factors that affect the import demand of soybean. The model is simulated by increasing import tariff so that its effect on soybean industry can be measured. Tariff has an effect on welfare, so the producer surplus’ analysis is carried out to estimate the producer’s net gain. Finally, this study uses the Total Factor Productivity (TFP) analysis in order to determine the productivity growth of the soybean farming.

The results of this study show that increases in income and price of corn (substitute commodity) lead to a rise in import demand. On the other hand, an increase in import tariff will cause import demand to decline. As import demand declines, the price of soybean will rise, resulting in an increase in domestic production. Moreover, an increase in tariff will increase the producers’ welfare. Lastly, there was some evidence of growth in TFP of soybean farming in Indonesia during the period of analysis, particularly in the non-Java regions. As the growth was found to be contributed by technological progress, the government should develop these regions by improving the related farming technology (seed, fertilizer and pesticide).
Abstrak thesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijasah Doktor Falsafah

PENGARUH TARIF IMPORT TERHADAP PERMINTAAN DAN PRODUKTIVITI LADANG DALAM INDUSTRI KACANG SOYA DI INDONESIA

oleh

Eti Suminartika

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Industri kacang soya mempunyai peranan yang penting dalam ekonomi Indonesia. Permintaan terhadap kacang soya telah sekian lama melebihi bekalan yang ada. Oleh itu, kerajaan negara ini telah mengimport kacang soya untuk mengatasi masalah tersebut. Akibatnya, terjadi peningkatan import kacang soya yang ketara yang akhirnya telah menjelaskan pengeluaran kacang soya tempatan. Kebergantungan terhadap import ini telah menjadi suatu masalah yang serius dalam usaha kerajaan memastikan tahap keselamatan makanan terjamin.

Objektif kajian ini secara umumnya adalah untuk menyiasat mengapa negara ini bergantung terhadap kacang soya yang diimport bagi

Dalam kajian ini, model pasaran bagi industri kacang soya beserta kaedah “two stages least squares” digunakan untuk menentukan faktor-faktor yang mempengaruhi import kacang soya. Model tersebut disimulasi dengan cara meningkatkan tarif impor supaya kesannya terhadap industri kacang soya dapat dilihat. Tarif mempunyai kesan terhadap kesejahteraan. Jadi, analisis lebih pengeluar dilakukan untuk menganggar keuntungan bersih para petani. Akhir sekali, kajian ini menggunakan kaedah analisis Jumlah Faktor Produktiviti (TFP) bagi menentukan tahap pertumbuhan produktiviti yang dicapai oleh ladang kacang soya.

Kajian ini mendapati bahawa peningkatan gaji dan harga jagung akan meningkatkan permintaan import kacang soya. Sebaliknya, kenaikan tarif pula akan menurunkan permintaannya. Apabila permintaan import menurun, harga kacang soya tempatan akan naik dan menyebabkan
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I certify that an Examination Committee has met on 5 September 2008 to conduct the final examination of Eti Suminartika on her Doctor of Philosophy thesis entitled “The Effects of Import Tariff on Demand and Farm Productivity of Soybean Industry in Indonesia” in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulation 1981. The committee recommends that the candidate be awarded Doctor of Philosophy.

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Date: 15 January 2009
DECLARATION

I declare that the thesis is my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently, submitted for any other degree at UPM or at any other institution.

Eti Suminartika

Date: 5 September 2008
# TABLE OF CONTENT

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABSTRACT</td>
<td>ii</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td>iv</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>vii</td>
</tr>
<tr>
<td>APPROVAL</td>
<td>ix</td>
</tr>
<tr>
<td>DECLARATION</td>
<td>xi</td>
</tr>
<tr>
<td>LIST OF TABLE</td>
<td>xv</td>
</tr>
<tr>
<td>LIST OF FIGURE</td>
<td>xviii</td>
</tr>
</tbody>
</table>

## CHAPTER

### 1 INTRODUCTION

1.1 Background 1
1.2 Problem Statement 9
1.3 Objective of Study 15
1.4 Significance of Study 15
1.5 Organization of Study 16

### 2 SOYBEAN INDUSTRY AND TRADE

2.1 Soybean Industry 18
2.1.1 World Production, Export and Import 18
2.1.2 Supply and Demand of Soybean in Indonesia 24
2.1.3 The Role of Soybean Industry in Indonesia 29
2.1.4 Soybean Farming 36
2.1.5 Soybean Processing Industry 41
2.1.6 Increasing Trend of Production Cost 45

2.2 Trade Liberalization Vs Protection in Soybean Industry 50
2.2.1 The Argument 50
2.2.2 Protection on Soybean Industry 52
2.2.3 Tariff Protection 55
2.2.4 Trade Liberalization on Soybean Industry 57

### 3 LITERATURE REVIEW AND THEORETICAL FRAMEWORK

3.1 Literature Review 58
3.1.1 Agricultural Market Model 58
3.1.2 Economic Performance of Soybean Industry 66
3.1.3 Total Factor Productivity Growth 68
3.2 Theoretical Review 73
3.2.1 International Trade 72
3.2.2 Export and Import 74
3.2.3 Trade Liberalization 77
3.2.4 Protection 80

3.3 An Agricultural Commodity Market Model 92
3.3.1 Supply Response 92
3.3.2 Demand Function 94
3.3.3 Price Determination 98

3.4 Data Envelopment Analysis 100
3.4.1 Technical and Economic Efficiency 101
3.4.2 Efficiency Frontier 103
3.4.3 Technical Change 107

3.5 Productivity Growth 107
3.5.1 Total Factor Productivity 107
3.5.2 Malmquist DEA Method 109
3.5.3 Malmquist TFP Index 112

3.6 Summary 114

4 METHODOLOGY 117
4.1 Market Model of Indonesian Soybean Industry 117
4.1.1 Model Specification 117
4.1.2 Structural Model of Indonesian Soybean Industry 125
4.1.3 Estimation Procedure 128
4.1.4 Model Identification 129
4.1.5 Model Validation 131
4.1.6 Simulation of Increasing Import Tariff 133

4.2 Measurement of Producer Surplus 134
4.3 Measurement of Total Factor Productivity Growth 137
4.4 Data Collection and Description 142
4.5 Summary 144

5 RESULT AND DISCUSSION 146
5.1 The Estimated the Model’s Coefficient 146
5.1.1 Acreage Function 147
5.1.2 Harvested Area Function 149
5.1.3 Production Function 151
5.1.4 Indonesia’s Domestic Demand Function 153
5.1.5 Indonesia’s Import Demand Function 156
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Soybean’s Word Production</td>
<td>18</td>
</tr>
<tr>
<td>2.2 Soybean’s World Export</td>
<td>19</td>
</tr>
<tr>
<td>2.3 Soybean’s World Import</td>
<td>20</td>
</tr>
<tr>
<td>2.4 Soybean’s World Consumer</td>
<td>21</td>
</tr>
<tr>
<td>2.5 Soybean’s World Price</td>
<td>23</td>
</tr>
<tr>
<td>2.6 Production, Import, Export and Consumption of Soybean in Indonesia</td>
<td>25</td>
</tr>
<tr>
<td>2.7 Percentage of Production, Import, Export and Consumption of Soybean</td>
<td>26</td>
</tr>
<tr>
<td>2.8 Exporting Countries to Indonesia</td>
<td>27</td>
</tr>
<tr>
<td>2.9 Production and per Capita Consumption of Legumes in Indonesia</td>
<td>28</td>
</tr>
<tr>
<td>2.10 The Content of Crude Protein Containing As Percentage Weight</td>
<td>30</td>
</tr>
<tr>
<td>2.11 Protein Intake and Energy</td>
<td>31</td>
</tr>
<tr>
<td>2.12 Distributions of Unit, Worker and Output of Small Business</td>
<td>33</td>
</tr>
<tr>
<td>2.13 Labor Force and Unemployment Rate in Indonesia</td>
<td>34</td>
</tr>
<tr>
<td>2.14 Number of Units and Workers in Industry Sector in Indonesia</td>
<td>35</td>
</tr>
<tr>
<td>2.15 Production, Area and Productivity of Soybean Farming in Indonesia</td>
<td>36</td>
</tr>
</tbody>
</table>
2.16 Productivity of Soybean Farming in USA and Indonesia
2.17 Cost Structure of Soybean Farming
2.18 Production of Soybean by Province
2.19 Number of Units and Workers of Soybean Processing Industry
2.20 Cost Structure of Tauhu and Tempe Processing Product
2.21 Price of Selected Food Item
2.22 Per Capita Consumption of Tauhu and Tempe
2.23 Wage Rate in Agricultural Industry sector
2.24 Price of Fertilizer
2.25 Price of Local and Imported Soybean
2.26 Depreciation of Rupiah Currency Against the US Dollar
2.27 Price of Kerosene and Gasoline
2.28 Ratio Soybean’s Floor Price and Rice Price
2.29 Importer and Value of Tariff of Soybean in Indonesia
4.1 Equation System of Basic Model of Indonesian Soybean Industry
4.2 Definition, Measurement and Data Source
5.1 The Estimated Coefficients for the Acreage Equation
5.2 The Estimated Coefficients for the Harvested Area Equation
5.3 The Estimated Coefficients for the Production Equation
5.4 The Estimated Coefficients for the Domestic demand Equation
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.5</td>
<td>The Estimated Coefficients for the Indonesian Import Demand Equation</td>
<td>158</td>
</tr>
<tr>
<td>5.6</td>
<td>The Estimated Coefficients for the ROW Import Demand Equation</td>
<td>160</td>
</tr>
<tr>
<td>5.7</td>
<td>The Estimated Coefficients for the ROW Excess Supply Equation</td>
<td>161</td>
</tr>
<tr>
<td>5.8</td>
<td>The Estimated Coefficients for the Import Price Equation</td>
<td>163</td>
</tr>
<tr>
<td>5.9</td>
<td>The Estimated Coefficients for the Locally Produced Soybean Price Equation</td>
<td>165</td>
</tr>
<tr>
<td>5.10</td>
<td>Summary of Estimates of Equation In the Indonesian Soybean Industry Model</td>
<td>167</td>
</tr>
<tr>
<td>5.11</td>
<td>Validation Result for Indonesian Soybean Industry Market Model</td>
<td>169</td>
</tr>
<tr>
<td>5.12</td>
<td>Effect of Increasing of Import Tariff (in Percentage) on the Major Variable of the Model</td>
<td>174</td>
</tr>
<tr>
<td>5.13</td>
<td>Nominal Value of the Major Variable of the Model (Before and After Increasing import tariff)</td>
<td>176</td>
</tr>
<tr>
<td>5.14</td>
<td>Effect of Increasing Import Tariff on Welfare</td>
<td>181</td>
</tr>
<tr>
<td>5.15</td>
<td>Input and Output of Soybean Farming</td>
<td>183</td>
</tr>
<tr>
<td>5.16</td>
<td>Productivity of Input of Soybean Farming</td>
<td>185</td>
</tr>
<tr>
<td>5.17</td>
<td>Land Productivity of Soybean Farming in Indonesia</td>
<td>186</td>
</tr>
<tr>
<td>5.18</td>
<td>Efficiency Change, Technological Change and TFP of Soybean Farming in Java</td>
<td>190</td>
</tr>
<tr>
<td>5.19</td>
<td>Efficiency Change, Technological Change and TFP of Soybean Farming in out of Java</td>
<td>192</td>
</tr>
<tr>
<td>5.20</td>
<td>Efficiency Change, Technological Change and TFP of Soybean Farming in Indonesian</td>
<td>193</td>
</tr>
</tbody>
</table>
# LIST OF FIGURE

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Effect of Trading, Production, Consumption and Price</td>
<td>75</td>
</tr>
<tr>
<td>3.2</td>
<td>An Excess Demand Curve</td>
<td>77</td>
</tr>
<tr>
<td>3.3</td>
<td>The Effect of Tariff on Trade</td>
<td>89</td>
</tr>
<tr>
<td>3.4</td>
<td>The Effect of Tariff on Domestic Market</td>
<td>91</td>
</tr>
<tr>
<td>3.5</td>
<td>Technical and Allocative Efficiency</td>
<td>103</td>
</tr>
<tr>
<td>4.1</td>
<td>General Structure of Indonesian Soybean Industry Market Model</td>
<td>118</td>
</tr>
<tr>
<td>4.2</td>
<td>Effect of Import Tariff on Welfare</td>
<td>135</td>
</tr>
<tr>
<td>4.3</td>
<td>Input Distance Function and Input Requirement Set</td>
<td>139</td>
</tr>
<tr>
<td>5.1</td>
<td>The Effect of Increasing (10 percent) of Import Tariff on Welfare</td>
<td>177</td>
</tr>
<tr>
<td>5.2</td>
<td>TFP of Soybean Farming in Java</td>
<td>189</td>
</tr>
<tr>
<td>5.3</td>
<td>TFP of Soybean Farming in non Java Region</td>
<td>191</td>
</tr>
<tr>
<td>5.4</td>
<td>TFP of Soybean Farming in Indonesia</td>
<td>194</td>
</tr>
</tbody>
</table>
1.1 Background

Soybean is one of the important oil products to the human kind throughout the world. In Indonesia, soybean is mainly used for human consumption; only a small quantity is used for other purposes. Many products such as tauhu, tempe, kicap, flavor, and chips can be processed from soybean. Tauhu and tempe industries together use 60 percent of the domestic supply of soybean in the country. Another 33 percent is used in the processing of soybean oil, milk, grain, and flavor while the remaining 7 percent is used for other purposes such as animal feed and seeds.

The consumption of soybean is gradually increasing. In 1970, 440 930 tons of soybean was consumed by the Indonesians, but the figure rose to 1 717 516 tons in 2004 (Table 2.6). The increase was mainly due to an increase in the per capita consumption. Each person in the country consumed just 3.7 kilogram of soybean in 1970, but the figure climbed to 4.6 kilograms in 1980 and 8.6 kilograms in 1990. In 1996, the per capita consumption of soybean stood at 10.5 kilograms. Shortly after the economic crisis in 1997, the per capita income in Indonesia started to decline. So did the per capita consumption of soybean. In 1997, the per capita consumption of soybean
was 9.0 kilograms, a drop of 14 percent from the previous year, before going down further to 8.3 kilograms in 2004.

The production of other beans such as peanut and mungbean tends to increase but their per capita consumption is not as much as that of soybean (Table 2.9). Therefore, these beans cannot be the substitutes for soybean.

Consuming soybean in the forms of tauhu and tempe is an old habit among the people of Indonesia. Today, soybean is the second largest source of protein consumed by the Indonesian people after fish. It contributes 10 percent to the total protein intake of all people in the country. It is a commodity which plays an important role in maintaining food security, both in terms of quantity and quality. The quality of food is closely related to nutrient content. Soybean is made up of 42-50 percent of crude protein, making it the third best food in terms of protein content after fish and peanut (Table 2.10). Furthermore, it is cheaper and more affordable than other sources of protein (Table 2.21). Therefore, soybean has a substantial role in maintaining food security in Indonesia.

To maintain food security in terms of food quantity, the domestic supply of soybean must be warranted. However, there has been an excess of the imported soybean over the local production in the domestic market. In 2005, approximately 61 percent of the country’s domestic supply of
soybean was met by imports and the remaining 39 percent was produced locally. This situation is unfavorable because there is no guarantee that the country can continue to provide enough food to the people in the future.

The second role of soybean industry is to distribute income to many Indonesian people. Distribution of income can be measured by the per capita income of a worker in this industry and the number of workers employed. In 2005, the per capita income of an Indonesian worker in the country was 28,749,483 Rupiah. In the agriculture sector (including the soybean farming) the per capita income was only 8,742,445 Rupiah, while it was 12,360,493 Rupiah for the small scale industry (including the soybean processing industry). This means that the soybean industry (farming and product processing) distributes less income to the people compared with other industries in the country.

The third role of soybean industry is as a source of job. The industry has employed many labors both at forward and backward linkage streams. Since the economic crisis in 1997, the unemployment rate has been increasing. In 2001, the rate of unemployment was 8.1 percent, and it soared to 10.26 percent in 2005 (Table 2.13). In an attempt to overcome this problem, the government has begun to develop all the business sectors including the soybean industry. Currently, the soybean farming employs more than 2 million workers, while the soybean processing industry
employs more than 260,000 workers. It means that there are more than 260,000 workers employed in the whole soybean industry nationwide. However, many of the firms in the soybean farming and soybean processing industry in Indonesia are small scale businesses. Further development of these firms may reduce the unemployment problem in the country.

Indonesia’s total supply of soybean is covered by both imports and domestic production. However, the price of domestically-produced soybean in the country is higher than the imported soybean. There has been an increase in the import of this commodity, which was first imported in 1974. In 1980, the import only made up 14 percent of the total supply of soybean in the country. Then, it started to increase gradually due to trade liberalization agreement.

The government of Indonesia reduced its tariff on soybean step by step. The import tariffs on this commodity during the periods of 1974-1980, 1981-1993, and 1994-1996 were 30 percent, 10 percent, and 5 percent respectively. The tariff was further cut to 2.5 percent in 1997 and a year later in 1998, the government introduced a free trade policy where no tariff on imported soybean would be imposed any longer. Since then, there has been no monopoly importer of soybean and the import of soybean has increased sharply. In 2002, the imported soybean accounted for 67.70
percent of the total supply or 1,365,771 tons, and it was the largest import during the period of 2000-2005 (Table 2.7). However, the dependency on the imported soybean can potentially pose a serious problem for the country as far as food security is concerned.

Although the imported soybean is demanded more, its quality is no better than the domestically produced soybean. Basically, the local soybean is fresher as it is stocked for a shorter period of time due to quick domestic demand. Therefore, tauhu producers prefer to use the locally produced soybean as the raw material than the imported soybean.

Most of the soybean’s domestic production is produced in Java. Productions from the island make up 70.32 percent of the national production, and the rest is produced in other regions (Table 2.18). In 1970, the domestic production of soybean was only 49,882 tons with 695 hectares of land size, before rising quickly afterwards. In 1999, the production reached a record high of 1,382,848 tons with 1,551,079 hectares of land size. After 1999, the production declined sharply as there was so much imported soybean in the domestic market (Table 2.6).

As discussed earlier, the price of locally produced soybean is more expensive than the imported soybean (Table 2.25). This problem can be analyzed in terms of the costs of production. The local soybean farmers