

**CONTINUITY AND CHANGE IN FOOD SECURITY,
AN ASSESSMENT OF ISSUES**

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Ladies and Gentlemen, Colleagues,

It is always a pleasure to be invited to speak about one's passion – to avoid the word hobby, which carries a rather frivolous connotation. Of course I use the word passion here in the sense of a long term academic interest. In this presentation I would like to re-examine the general food policy in the 1970s, by co-incidence not only the formative years of food security in Indonesia but also my own, and compare this to the current policies and current general situation. Many things have changed since the 1970s. We can learn from the differences, and maybe even more from the things that stay the same. In my address I will single out one element that deserves much more recognition and attention than it currently gets, namely the fact that agriculture is business, and the role of small and medium family enterprises in the sector.

I will refer where I can to ASEAN countries in my talk, but I will largely focus on Indonesia, because over the years Indonesia's agriculture sector has shown tremendous dynamism. Of course, I am also most familiar with Indonesia, so it is easier for me to derive lessons from looking at Indonesia than at other countries.

First, however, a quick enumeration of the current and hot issues in South East Asia. There are many.

First, the importance of price stability has come repeatedly to the forefront, especially so since the price jumps of 1997 and 1998. Second, food security is still considered as a major challenge, and some organizations even say that the food security systems have failed. I am not sure I agree with that. Third, food sovereignty sometimes still surfaces in the meaning that any given country has the freedom to set policy as it deems fit, but not so frequently anymore. Fourth, climate change and global warming front often as a long term process with negative consequences for food security, Fifth, genetic modification is now generally seen as offering growth potential although it is still heavily debated. Although many doubt GM seed would help small farmers; the need for high yielding varieties especially of the major food crops is widely recognized.

There are of course many more angles and aspects of food security, but the foregoing are the main current issues.

Now, with this in the back of our mind, let us take a look at the 1970s. In some ways it was possibly an easier time than the current period, but we will let the historians decide about that. In the 1970s many South East Asian economies were still very much top down, or "command" economies, with accompanying political systems. Policy formulation was very much a centrally instigated work. The implementation was a different story, more about that in a while.

The ingredients of what was called the Green Revolution are well known and analyzed: irrigation, development and distribution of appropriate varieties and production and distribution of fertilizer. Irrigation was done by central and local planning; the rice varieties came from IRRI – while the original parent material was a cross between an Indonesian variety and material from Taiwan. Gas

rich South Asian countries had little problems setting up some state owned and state ran fertilizer factories. Those three were the ingredients, and the cooks were the tens of thousands of extension officers, initially also accompanied by students, spreading the new technology in the villages, in Indonesia initially on Java and later Off Java. Over the medium term the interventions were a great success, labor productivity went up, income and food availability increased and provided a broad medium term push towards rural development.

All this could happen against the backdrop of price stability – in Indonesia this was brought about by a system of state managed rice local rice purchases and imports and subsequent releases in areas with a shortage of rice and high prices. Of importance was the national level policy of recognizing rice “plus” and “minus” areas. If an area was “minus” the bupati and the relevant departments got money, and if they did not succeed, the careers of the civil servants was on the line.

This whole configuration of policies has been termed food policy – whatever the term, it is totally clear that the whole set of policies was multi-sectoral and pro-poor, and in Indonesia involved the presidential office, as well as the ministries of agriculture, public works, home affairs, and specialized agencies, such BULOG and DOLOG. The late 1960s and the 1970s was a period of grand problems and grand solutions. The whole process was driven by strong political will, of course by the late president Soeharto, someone who understood agriculture and rural people very well. Mistakes were made – for example the massive application of organophosphates, resulting in huge losses because of pests and diseases, but these were corrected.

So, at the end of the 1970s we saw a food sector in Indonesia with myriads of small farmers, primarily on Java, and transmigrants off Java, massive government departments and a number of state ran enterprises, and a careful subsector of local rice traders and storage companies. Two basic trends were clearly visible in those years, a down going trend of international rice prices and a continuing fragmentation of rice land holdings on Java, and actually also in the traditional rice production centers off Java.

But perhaps the most important observation is that even though Indonesia’s policies focused very much on rice, the fact remains that rice never occupied more than 50 % of food intake, and that over 50% of food and income for small farmers was provided by non-rice food and feed crops, maize, soybean, cassava, vegetables, fish, small livestock and many crops and fruits. This already pointed at a natural process of diversification in the 1970s. I believe this process was broadly the case in South East Asia.

Right now we are in 2011, and the issues of price stability and food security are still with us, poverty also, though substantially reduced. New issues have come over the horizon, such as climate change and global warming. The nature of government and governance has also changed.

Let us first look at the current back drop, the international and domestic trade situation, and the domestic policy theater in Indonesia. In South East Asia, Thailand has remained the major rice supplier, and is now accompanied by Vietnam. One can expect Myanmar to join the region’s rice exporters the moment the country can manage the necessary reform. But the Asia Region also hosts two giant consumers and producers, India and China of course. A small fraction of their rice stocks looms as very large in South East Asia. Imagine what would happen if these two countries enjoy a bumper harvest in the same year and would export their surpluses – prices would go way down, or inversely, as has happened in 2007; if they have a reduced harvest, and put a ban on exports...Prices would go sky high... No wonder the major rice consuming countries try to grow their own consumption in-country.

The result is that rice as a commodity remains a “rest” trade, meaning that only around 6 % of global production is traded internationally. No real change there. We also see no real change in Indonesia in the impact of bad harvests, the impact of the 1997 El Nino was 1.8 %, this year we cope with an impact of 1.5 %. This points at a need for some imports. Indonesia has to increase productivity substantially.

We see a big and structural change in the long term trend of international rice prices. Since the early 2000s rice prices are on the increase, signifying an end to a century old trend of down going prices. Rice is becoming slowly slightly scarcer in the world, relative to other commodities. This trend, in combination with the fact that only some 6% of rice is internationally traded, may partly cause disruptions in the rice market to be more severe than before. The events of 2007/8 seem to bear out this notion. Some bad harvests, combined with a rather ill contemplated purchasing by some importing countries, accompanying bans on exports by an exporting country, resulted in a huge swing upwards of rice prices in 2007/2008. This sort of thing did not happen in the 1970s.

ASEAN and Indonesia have come a long way since the 1970s. ASEAN is the undisputed world leader in palm oil production, and Indonesia is now the leading producer. With Vietnam, Indonesia has developed its coffee industry dynamically, also in cocoa Indonesia has made huge progress. With the huge increases in rubber prices, Indonesia has moved up, together with Thailand, with other ASEAN countries taking advantage as well. Malaysia divested away from rubber into palm oil. The soybean industry in Indonesia expands continually, cashew nut production (as in Vietnam) is growing, and vegetable production is now supplying cold stores supplying urban consumption centers throughout the archipelago. Indonesia exports flower plantlets, and the country now has dozens of tissue culture labs supplying the growers with homogenous planting material. Fresh water fisheries is continually expanding as well, dairy development against expectations of some is also continuing. The meat industry in Indonesia remains something of a dark horse with some foreign investment, but relatively little domestic investment.

All these sub-sectors have one key characteristic in common. They are host to the hard core of any country’s agriculture sector, namely the small and medium size family enterprises, a rural based middle class. Even the palm oil sub-sector, though dominated by a number of huge conglomerates, cannot do without the medium size enterprises. The rice sub-sector is somewhat absent as a generator of a rural middle class. Only maybe in Thailand and the Philippines the rice sector on the production spawned some limited middle class farming and small and medium enterprises, but not really so in the other ASEAN countries. The dynamic developments show that agriculture is business, and also show that things can happen as a result of private initiative.

Rice productivity has gone up tremendously over the last decades with Indonesia as the area productivity leader in ASEAN, while Thailand leads in labour productivity. In Indonesia, and I believe elsewhere, the basic characteristics of this sub-sector have not really changed, the fertilizer industries are still state managed, while the private sector contribution to seed is still limited. Perhaps this will change with a new generation of hybrids coming on the market.

A very important characteristic in Indonesia is the structure of rice land holdings. In virtually all production centres these are minimal at around 2000 m and often much smaller than that. This may explain why rice production has not generated a rural middle class. It seems though that in Indonesia the trend of continuing fragmentation has come to a standstill. This matter needs researching, because it seems that this trend is related to two phenomena, namely the increasing reliance of the Javanese rural population on increasing income from annual or seasonal migration, and the related change in land use towards built up land, or land for housing. But this remark is merely to

the side of the main issues addressed in this presentation. But in view of future land availability it seems important enough for checking though.

It is time for an interim observation. Food security policy has succeeded very well on the production side in rice, but it did not really lead to long term capital formation among the rural population, whereas those commodities more outside food policy scope went through dynamic development and did result in a strong expansion of a rural middle class of farmers.

What can we say about the policy theater of 2011 vis a vis the 1970s? I would say that of the ASEAN countries Indonesia and Vietnam have possibly changed most. In Indonesia I would be tempted to say we changed from a command economy towards a highly intricate voting economy. Political parties and local party alliances play a primary role at all levels, sometimes for the common benefit but not automatically so. In ASEAN countries I do not think rice based food policy has changed really. In Indonesia we count one additional policy, the rice for the poor. Pro poor policy has changed towards location specific targeting and consumer level interventions. With the huge increase in international labour migration from rural areas in Indonesia and many other countries in ASEAN and elsewhere, there is a case to be made for pro poor policy through migration policy and policy on financial transfers to back home.

Many recent studies, among which the authoritative World Bank study of 2007, show that in Indonesia, with a per capita income of around 3600 US\$ income, and a poverty incidence of around 22 %, productivity expansion in agriculture remains still the best poverty alleviation instrument. This is absolutely the case in the most impoverished areas where well over 60 percent of the population is totally dependent on agriculture. I believe the same holds true in all ASEAN countries.

Since the introduction of local autonomy in Indonesia surely many districts try their best to deal with their local poverty through local programmes and locally devised support systems. I know for a fact that many districts try their level best, but in many cases these districts, especially the newly created ones, simply lack the know how to undertake improvement in earnest. In this regard the role of the many universities in the region is essential – however, many suffer from a great demand for education, but little means to provide it. So maybe we can say that since the 1970s the time of the big results (and some big mistakes), is over, and that we can now speak of a period many attempts, well intended but not necessarily well guided. Maybe there are many mistakes, but that does not matter, as long as we learn. And as long as we are brave enough to improve decisions and actions.

The times of a centrally managed learning system, as we devised in agriculture in the 1980s and onwards may be over. In Indonesia we decentralized it in the 1990s, but it still remained fraught with a centralist philosophy, simply through the centering of know how in one institution. In this regard we may draw a very important conclusion from the simple fact that most sub-sectors which have shown continuous growth over the last decades are dominated by small and medium size enterprises, mostly family based. The people who own and run these companies will learn, otherwise they lose their income, and may even go bankrupt.

Before we move on to conclusions, I will end my observations with a remark on Global Warming and Climate Change. These notions have spawned a whole new industry of projects in Official Development Assistance. In Forestry we are still witnessing the slow and uneasy birth of REDD – meaning Reducing Emissions from Deforestation and Forest Degradation. It is totally obvious and in fact very good that the international development community is very stern in applying all the criteria to make projects that really satisfy the goals of the REDD and CC programmes. Even, if I may say so, when the progress is slow and uncertain... The key notions concern primarily the forestry and the energy sectors, but to a more limited extent they also affect agriculture in its many

forms. In agriculture economics the concepts of risk and uncertainty have played a major role in just about all development work. Risk as you all know, refers to a quantifiable possibility, always based on statistics and expectations, while uncertainty refers to possible events which are not quantifiable through observations and statistics. Business deals with risk – and good business reduces uncertainty to risk through the clever use of observations and science. And this is exactly what good agriculture development does, identify risk, quantify it, and reduce uncertainty through technology development and application. This is really where all the disciplines in agriculture come in.

So, I sincerely hope that the new nodes of thought, if I may call Climate Change and related ideas such, will yield a fruitful contribution to the development of the business element in agriculture and that it will contribute to local livelihoods and family income. My hope is that it will result in forward looking projects and ideas.

It is time to sum up conclusions.

First. The need for price stability of international and domestic rice prices has increased, or is at least as strong as ever. Lasting solutions would need to involve, aside from the ASEAN countries, the two giant producers and consumers in the region.

Second. I know for a fact that because of the need for price stability and food security Indonesia cannot do without the current rice policy. But the success of the last decades was only possible because of expanded production though the application of improved technology in the field, not so much through the introduction of new varieties. The yield increases of the last decade are almost entirely based on this long term process of increasing production efficiency. Every discipline plays a vital role in this process.

Conclusion number Three concerns the growing institutional complexity of food policy systems. Food policy is actually spread out over many different actors, the Ministries of Agriculture, Local Government, rice Procurement and distribution systems, Presidential Office, Public Works. This was the case in the 1970s, and this continues to be the case against changed political backdrops in the region, and is actually expanded with more importance of local government and also NGO's as participants. This puts strain on the system as such if it is to remain responsive and innovative. Conclusion Four. Food security does not happen though government intervention alone. Local income increase and expanded depends increasingly on private initiative. Agriculture is business, even if it is small scale.

Conclusion number Five is about the need for a focus on new development partnerships. In the future policies I would advocate to make the existence and dominance of the small and medium size enterprises a center fold. Let local government, local universities, backstopped by more advanced ones if necessary, together with S&E identify options, risks and investments and try them out. We all talk about and maybe use multi-stakeholder platforms locally, but I would advocate to for Private Public Partnerships off the ground locally. Not big ones such as in infrastructure, but small ones. I firmly believe this is really part of the way ahead.

I sincerely hope I have satisfied at least some your expectations in this presentation. Our duty at this time in South East Asia is to devise ways and means to bring about progress in rural areas and to secure a sufficiency of food at affordable prices. This duty will not change in the foreseeable future.

I thank you for your kind listening and wish you all fruitful discussions, Thank you!