REVIEW OF ECONOMIC DEVELOPMENTS

Mounting Economic Challenges

Titik Anas, Dandy Rafitrandi and Dwi Khairani

Introduction

The economic growth for 2012 remains high at 6.2% but slightly lower than the 2011 growth of 6.5%. The slowing down of growth was witnessed in the second half of 2012. The remaining of his second term, President Susilo Bambang Yudhoyono, faces serious challenges, namely increased fuel subsidy, widening current account deficit, the depreciation trend of Rupiah, high inflation and increases in minimum wage.

Albeit the challenges, several factors can contribute to the sustained high growth. First, the global economic recovery, albeit limited. Second, the recovery of commodity prices albeit below the pre-crisis level. Third, the investors' confidence on Indonesian economy remains as indicated by high investment growth, both in portfolio and direct investments.

This report also discusses the recent trade regulations, which continues the recent trend of protectionism and has resulted in high inflation.

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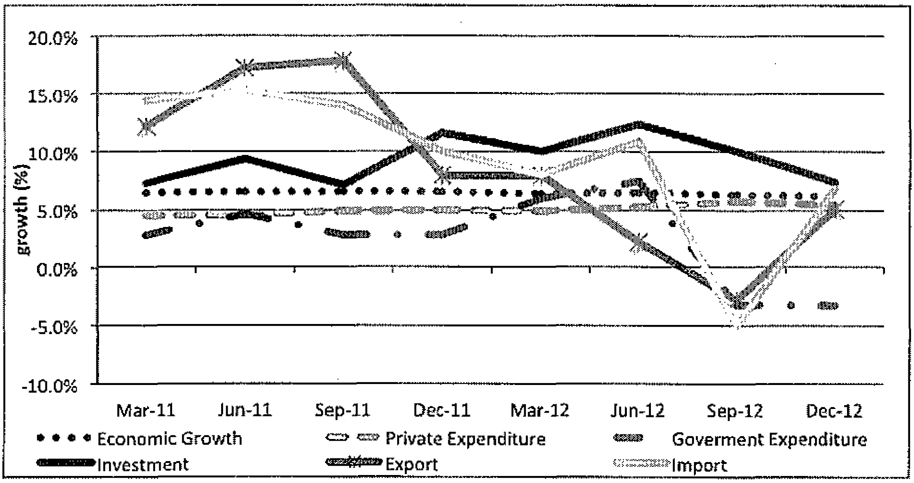
Economic Growth Remains High

The 4th quarter of 2012 witnessed economic growth of 6.1%, the lowest in 2012 (see Figure 1). On the expenditure side, the 4th quarter growth was driven by investment spending, grew at 7.3%, private consumption grew at 5.4%. Exports, which used to be the engine of growth, showed a low growth of 0.5%. Government spending contracted by -3.3%, while the value of imports continued to rise at 6.8%.

For the whole 2012, the economic growth was 6.2% with investment and private consumption as the driving forces, grew at 9.8% and 5.3% respectively. Meanwhile, export performance remains weak, grew only at 2%, compared to 13.6% in 2011.

Figure 1. Economic Growth by Expenditure (y-o-y)

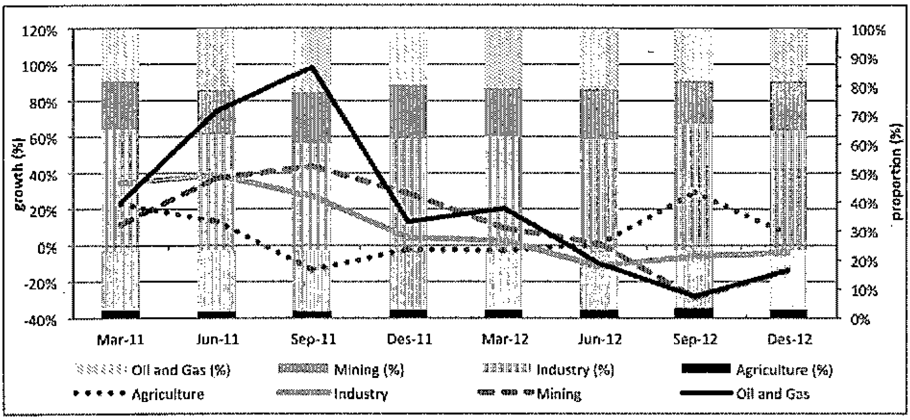


Source: CEIC Database

Weak performance of exports in 2012, as seen in Figure 2, in part was due to the weakening of world commodity prices such as coal and palm oil, which are the main Indonesia's export commodities. As in Figure 2, the end of 2012 witnessed the negative growth in all major sectors with agriculture exports shrunk about -12%, industrial exports about -7%, mining about -12% and oil and gas about -15%. Demand from Indonesia's trading partners, such as United States of America, Japan, and European Union grew slowly. The slow down was also the result of export restriction in the form of export tax and licensing introduced recent time.[1]

Exports were still dominated by industrial commodities, accounted more than half of the total exports, followed by the oil and gas sector, around 20% of total exports; and mining and agriculture sectors, together accounted around 30% of total exports (Figure 2). As for export destination, China remains to be Indonesia's major destination with market share of 13.6% followed by Japan, United States of America, India, and Singapore.[2] Major contributors to 2012 exports, in addition to oil and gas, also include mineral fuels, animal and vegetable fats and oil, machinery/ electrical equipment, rubber and rubber products (6,8%) and machinery/ mechanical appliances.[3]

Figure 2. Exports by Sectors



Source: CEIC Database and Central Bureau of Statistics, 2013

For the whole year of 2012, imports increased by 6.7%, a lower rate compared to 2011 imports growth. The large proportion of Indonesia's import was raw materials/intermediate goods, more than 70% of total imports (see Figure 3). The remainings were capital goods, around 20% and consumer goods, less than 10%. The high degree of imports of raw materials, intermediate goods and capital goods indicating the

[1] Katy Cornwell and Titik Anas, 2013, "Survey of Recent Development," *Bulletin of Indonesian Economic Studies*, 49 (1), pp. 7-33.

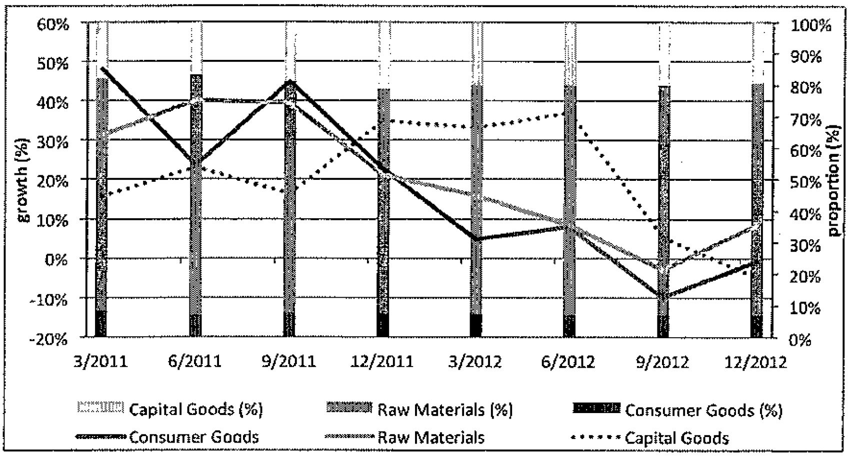
[2] BPS, *Berita Resmi Statistik Ekspor Impor Desember 2012*, February 2013

[3] BPS, *Berita Resmi Statistik Ekspor Impor Desember 2012*, February 2013.

high import dependence of domestic production. Based on the input-output table in 2005, the import component from manufacturing sector in Indonesia, on average was about 14%. Some industries showed a high dependence on imports, such as textile (30.4%), chemical industry (30%) and machinery and electronic equipment industry (28%).[4] In addition, the recent trend of global production network makes a globally integrated sector tend to have high dependency on imports.

In the first half of 2012, imports of capital goods showed strong growth, but it declined in the second half of 2012. The strong growth of capital goods import was a natural impact of the surge in investment, both foreign and domestic investment (see the more detail discussion on investment). Meanwhile, imports of raw materials and consumer goods showed their decline at the end of 2011 and only bounced back in the fourth quarter 2012. By commodities, the largest non-oil imports were machinery and mechanical equipment (19%), machinery and electronic equipment (12.7%), iron and steel (6.8%), motor vehicles and parts (6.5%) and plastics and plastic goods (4.7%). China (19.4%), Japan (15.2%), US (7.7%), Thailand (7.6%) and Singapore (7.1%) are the main source of imports.[5]

Figure 3. Import Composition



Source: CEIC Database and Central Bureau of Statistics, 2013

[4] Titik Anas, "Indonesia's New Trade Restrictions and Their Impacts on Domestic Production and Export Performance," *The Indonesian Quarterly*, 40(2), 2012.

[5] BPS, *Berita Resmi Statistik Ekspor Impor Desember 2012*, February 2013.

Sectoral economic growth shows that services sector exhibited a significantly high growth, followed by the manufacturing, agriculture, and mining sectors (Table 1). Telecommunication sector showed a growth of 12.1%, followed by construction sector and trading sector, hotel and restaurant at 7.5% and 8,1% respectively. Other services sectors also continued to grow above the GDP growth rate, such as financial services, rental and business (7.2%) and transportation (6.6%). Meanwhile, manufacturing industry grew 5.7%, agriculture grew 4%, and increase of non-oil and gas grew 1.5%.

Table 1. Economic Growth by Sector (%)

Sector	Mar-2012	Jun-2012	Sep-2012	Dec-2012	2012
Agriculture, stockbreeding, forestry, and fishery	4.3	3.6	4.8	1.9	4
Mining and excavation	2.8	2.9	-0.1	0.5	1.5
Manufacturing	5.7	5.5	6.4	6.2	5.7
Electricity, gas, and clean water	5.2	5.9	5.6	7.3	6.4
Construction	7.2	7.1	8	7.8	7.5
Trading, hotel and restaurant	8.3	8.9	6.9	7.8	8.1
Transport	6.8	6.1	7.3	6.8	6.6
Telecommunication	12.5	12.6	12.4	11.3	12.1
Finance, real estate, and business	6.3	7	7.4	7.7	7.2
Other services	5.5	5.7	4.4	5.3	5.2

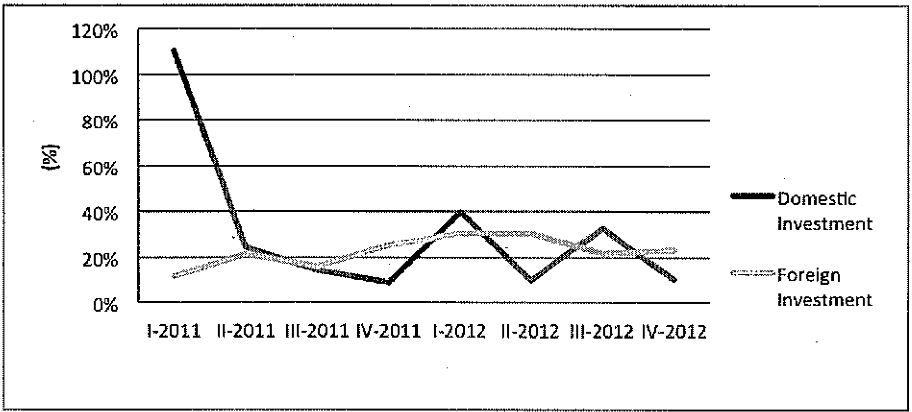
Source: *CEIC Database*

A Surge in Investment

Investment has become an important element for sustaining a high economic growth in Indonesia. In the 4th quarter in 2012, total investment realization increased by 19% compared to the same quarter in 2011 (Figure 4). Foreign investment (PMA) and domestic investment (PMDN) increased by 23% and 10% respectively.

Foreign direct investment was mainly to base metal industrial sector, metal goods, machinery and electronics (18.5%), mining sector (17.4%) and transportation, warehouse and telecommunication (14.8%). Domestic investments were mainly to the transportation, warehouse and telecommunication sectors, about 18.5% of total domestic investment, equivalent to Rp 4.9 trillion (US$0.5 billion), followed by food industry (13%) and food crops and plantations (12.8%).[6]

Figure 4. Investment Growth 2011-2012

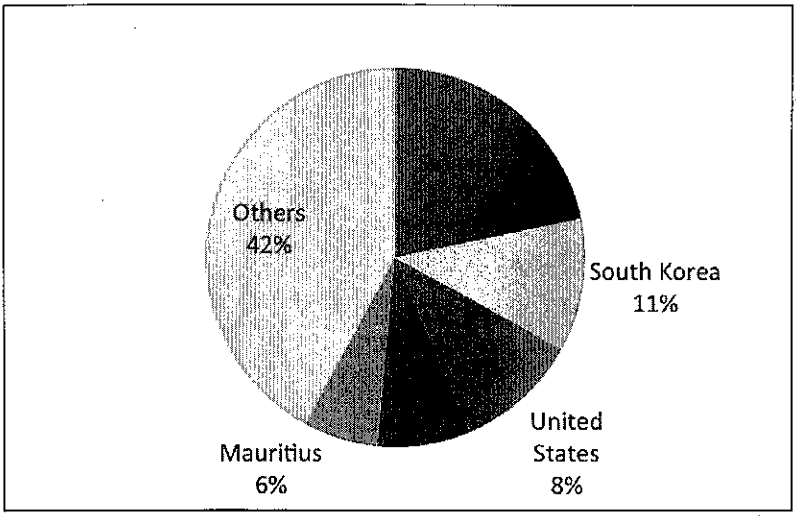


Source: BKPM, The Domestic and Foreign Investment Realization 2012, January 2013

For foreign investment, Singapore was the biggest investor in Indonesia in the 4th quarter of 2012, with a nominal investment of US$ 1.4 billion, about 22% of the total foreign investment. Subsequently followed by South Korea (11%), Japan (11%), United States of America (8%) and Mauritius (6%).

[6] BKPM, *The Domestic and Foreign Investment Realization 2012*, January 2013.

Figure 5. Foreign Investment Countries of Origin 4th quarter of 2012



Source: BKPM, The Domestic and Foreign Investment Realization 2012, January 2013

Pressures on the Balance of Payments

Indonesia's balance of payments was under pressure due to declining exports, in both oil and gas and non-oil and gas (Table 2). In 2012, exports were only US$188.1 billion, a decline of 6% compared to export value in 2011. On the other hand, imports continue to increase. This has resulted in a depletion of trade surplus. In 2012, the trade surplus was only US$8.5 billion, compared to US$ 34.6 billion surplus in 2011.

The depletion of trade surplus has resulted in current account deficit of US$24.2 billion, equivalent to 2.7% of GDP for the first time in 15 years. On the other hand, capital account was at surplus of US$24.9 billion, with direct and portfolio investment surplus of US$14.4 billion and US$9.2 billion respectively. This brings a marginal increase to the foreign exchange reserves.

The trade balance, which was usually in surplus, has recently turns deficit. The year 2012 has shown that trade surplus was really thin. Recently, Central Bureau of Statistics reported that Indonesia experienced a trade deficit of US$402.1 million in January and February 2013. In February 2013, export declined by 4.5% while import increased by 3.03%.

The trade deficit was due to the decrease on exports, both oil and gas sector and non-oil and gas sectors. The trade procedures and logistic performance related to exports performance, the weakening global demand and the decrease of Indonesia's main commodities prices were among the factors contributing to the declining exports. Secondly, the surge in imports of oil, due to inefficient use of highly subsidized leaded fuel (known as "premium") are the other crucial factor that lead to the trade deficit. Lastly, the slow global economic recovery, the European Union, United States of America, and Japan in particular.

Apart from seeking new markets to expand, improvement in trade facilitation and logistic services are crucial in improving Indonesia's export competitiveness. On the other hand, it is urgent for government to evaluate its excessive fuel subsidy policy, which had resulted in overconsumption of fuel and misallocation of government budget.

Table 2. Indonesia's Balance of Payments 2011-2012 (in US$ billion)

	2011	Mar-12	Jun-12	Sep-12	Dec-12	2012
Current account	**1.7**	**-3.1**	**-8**	**-5.3**	**-7.8**	**-24.2**
Exports	200.8	*48.4*	*47.6*	*45.6*	*46.7*	*188.1*
Non-oil/gas	162.8	38.6	38.4	37.4	38.1	152.6
Oil & gas	37.8	9.8	9.2	8.1	8.6	35.6
Imports	166	*44.5*	*46.7*	*42.3*	*46.1*	*179.7*
Non-oil/gas	127.3	33.9	36.5	33.5	35.2	139
Oil & gas	38.7	10.6	10.2	9	10.9	40.7
Merchandise trade balance	34.6	*3.5*	*0.9*	*2.9*	*1.2*	*8.5*
Non-oil & gas	35.5	4.5	1.9	4	2.9	13.6
Oil & gas	-0.9	-1	-1	-1.1	-1.7	-5.1
Services	-10.6	-2.1	-2.9	-2.5	-3.2	-10.8
Income	-26.7	-5.9	-6.8	-6.9	-6.2	-25.8
Current transfers	4.2	1	1	1	1.2	4
Capital account & financial account	**13.5**	**2.4**	**5.1**	**6**	**11.4**	**24.9**
Capital account	0	*0*	*0*	*0*	*0*	*0*

Financial account	13.5	2.4	5.1	6	11.4	24.9
Direct investment	11.5	1.6	4	4.3	4.5	14.4
Portfolio investment	3.8	2.7	3.9	2.5	0.2	9.2
Other investment	-1.8	-2	-2.7	0.8	6.7	1.2
Errors & omissions	-3.4	-0.2	0	0.2	-0.5	-0.6
Overall balance	**11.9**	**-1**	**-2.8**	**0.8**	**3.2**	**0.2**
Foreign reserves	**110.1**	**110.5**	**106.5**	**110.2**	**112.8**	**112.8**

Source: CEIC Database and Bank Indonesia, 2013

Import restrictions can be the easiest and fastest cure to trade deficit, however, it can be counter-productive as domestic productions, as discussed earlier, tend to be fragmented globally. Restricting imports across the board will distort input source of domestic producers, which will at the end distort its competitiveness vis-à-vis their global competitors.

Inflation

In 2012, the inflation was still controllable, as can be seen on Figure 6. Based on the Consumer Price Index, at the end of 2012, inflation was 4.3%, remained within the Bank Indonesia's target range. In 2013, the pressure to have higher inflation remains, given at the end of 2012 the governments raised the provincial minimum wage. In addition, there is also the possibility of food prices to increase because bad weather, the gradual increase in electricity price and import restrictions on horticulture products and beef.[7] During January-March 2013, inflation has increased (Figure 6). In March 2013, inflation rate was at 5.9%, already above the Bank Indonesia's inflation target threshold of 3.5- 5.5%.[8] Import restriction, especially regulated imports of onion and garlics (see also Regulated Imports section) contributed to the in-

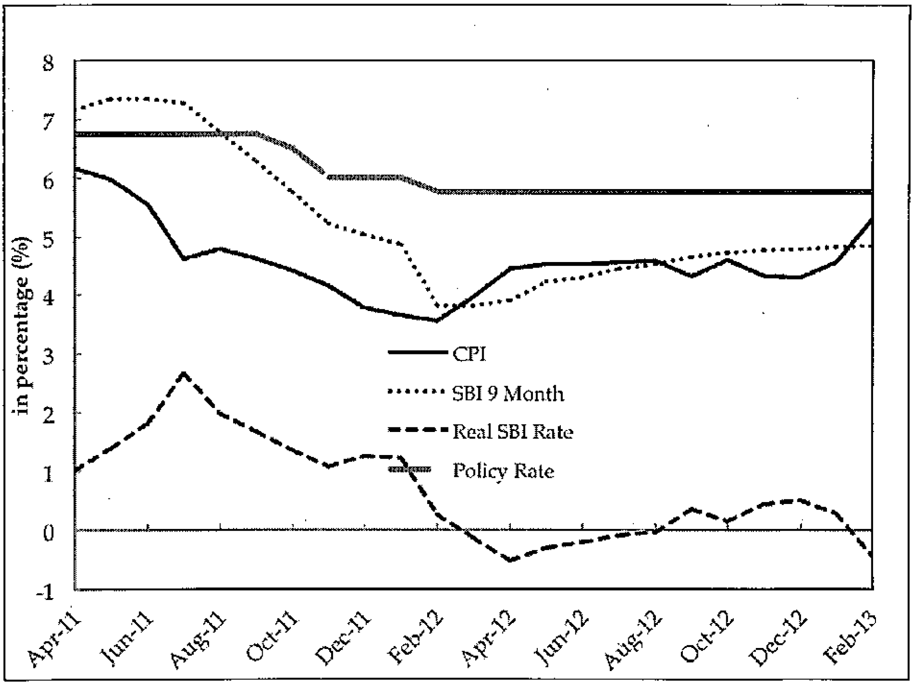
[7] Katy Cornwell and Titik Anas, 2013. "Survey of Recent Development", *Bulletin of Indonesia Economic Studies* discusses the policies in greater details, p.12.

[8] BPS, *Berita Resmi, Inflasi Maret* ,2013.

crease of prices in the beginning of 2013.[9] The reduction of fuel subsidy, which the government needs to undertake, will contribute to higher inflation as well, at least in the short run.

With the rising inflation, the real interest rate of Bank Indonesia Certificate (SBI), which had already been positive since last September, was back to negative territory since February 2013. This will trigger an increase in interest rate at commercial banks to provide positive returns for investors.

Figure 6. Inflation, Interest Rate, and SBI



Source: CEIC database

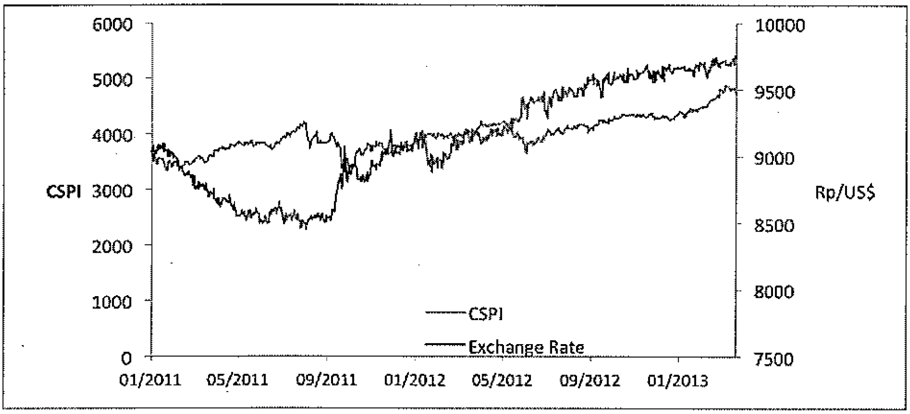
Meanwhile, Rupiah exchange rate to US dollar follows a depreciation trend since the beginning of 2012. At the end of 2012, rupiah was traded at 9,659 rupiah per 1 US dollar, compared to 9,173 rupiah per 1 US dollar in the beginning of 2012. Bank Indonesia has made several polices to slow down the depreciation rate, including requiring expor-

[9] World Bank, *Indonesia Economic Quarterly*, March 2013.

ters to bring back their export dollar earnings deposited overseas, introducing auction of foreign currency deposits, and allowing private banks to manage funds in foreign currency. The depreciation pressure is expected to continue for the rest of the year, due to high demands for dollar to finance imports and debt services, while exports, which is one of the main resources of dollar availability in the country has not fully recovered yet.

Indonesia stock market performance remains positive, with the composite stock price index (CSPI) continues to increase. At the end of 2012, it increased by 12% compared to its level on the first trading day in 2012. In February 2013, stock market was closed with CSPI at 4,796, compared to its level of 4,363 in the beginning of 2013. This shows another increase, about 11%. Stock market trading volume was at 136.9 billion with the transaction value of Rp 119.8 trillion. Both volume and value of transaction showed increases compared to the earlier month. Foreign investors' interest remained positive on Indonesians stocks. At the end of 2012, the net foreign purchase was IDR 15.8 trillion. In February 2013, the net foreign purchase was IDR 11.2 trillion.[10]

Figure 7. Exchange Rate and Composite Stock Price Index



Source: Yahoo Finance; Pacific Exchange Rate, 2013

[10] IDX, *Monthly Statistics*, 2013.

2013 Budget: Subsidy Misallocation

The approved 2013 Budget was at Rp 1,529.7 billion, 1% higher than what the governments proposed and 13% higher than the budget 2012 (Table 3). Tax revenue remains the main component of governments' domestic revenue, about 78% of total domestic revenue. Almost half of the governments' tax revenue comes from income tax. Meanwhile, non-tax revenue contributes only about 22% to the governments' domestic revenue, with the non-tax revenue still dominated by revenue from natural resource, about 16% of governments' domestic revenue. Meanwhile, the revenue from SOEs' profits will still be very low, about 2% of governments' domestic revenue. Based on Budget 2013, governments will still collect payments for services provided by certain center of public services; the contribution is even exceeding the contribution of SOEs' profits for the country, about 5% of governments' domestic revenue.

On the expenditure side, 69% of the state budget 2013 will be channeled through central governments, with value of Rp 1,154.4 trillion, while the other 31%, amounting to Rp 528.6 trillion will be channeled through local governments. The largest component of central government spending is subsidy, amounting to 317,2 trillion, of which 193.8 trillion will be allocated for fuel subsidy.[11] In the 2013 budget, subsidized-fuel quota is set at 46 million kiloliters. In fact, in 2012, the realized fuel subsidy exceeded the allocated budget. The fuel subsidy is expected to be exceeding the allocated budget again this year if the government remains unwilling to lift the subsidy. In the period January-February 2013, the use of subsidized fuel exceeded the quota on those months around 0,7%. High-income group benefited the most of the subsidy. Based on the 2009 data from the National Socioeconomic Survey (*Susenas*), 40% of fuel subsidy was enjoyed by the richest 10% of people in Indonesia and less than 1% was enjoyed by the poorest 10%.[12] The government was too slow to decide on subsidy reduction. Newspapers reported that the government is going to adopt fuel con-

[11] The subsidy of IDR 193.8 trillion is based on assumption of the price of crude oil of US$100 per barrel.

[12] World Bank, *Indonesia Economic Quarterly*, April 2012.

sumption control[13] or dual fuel pricing rather than lifting the subsidy. Aswicahyono et al (2011) shows an increase in fuel price (reducing subsidy) would have positive impact on the national economy because the government can reallocate the subsidy to other sectors.[14] The current fuel subsidy has resulted in excessive consumption, public investment misallocation, state budget deficit and trade balance deficit which in turn contributing to the weakening of rupiah. Aswicahyono et al (2011) estimated an increase in fuel price by Rp 1,500 would only to result increased inflation around 0.8-1.6%.

Table 3. State's Revenue and Expenditure Budget 2012-2013 (in trillion rupiah)

	2012			2013	
	Proposed	Revised	Actual	Proposed	Approved
REVENUES & GRANTS	**1311.4**	**1358.2**	**1327.2**	**1507.7**	**1529.7**
Domestic Revenues	**1310.6**	**1357.4**	**1324.8**	**1503.3**	**1525.2**
Tax	*1032.6*	*1016.2*	*979.8*	*1178.9*	*1193*
Domestic	989.6	968.3	930.3	1120.7	1134.3
Income Tax	520	513.7	464.7	574.3	584.9
VAT	352.9	336.1	337.4	432.7	423.7
Other	116.7	118.6	128.2	122.6	125.7
International trade taxes	42.9	47.9	49.5	58.2	58.7
Non-tax	*278*	*341.1*	*345*	*324.3*	*332.2*
Natural resource revenues	177.3	217.2	226.5	190.7	197.2
Profits of state-owned enterprises	28	30.8	30.8	32.6	33.5

[13] The government will install an equipment in all petrol station to monitor the use of subsidized fuel and restrict purchase of users of private vehicle. See more details in "Pengendalian BBM Mengulang Lagu Lama," *Kompas*, 27 March, 2013.

[14] Haryo Aswicahyono, Deni Friawan, Pratiwi Kartika, and Widdi Mugijayani. "Penyesuaian Subsidi BBM-Pilihan Rasional Penyelamatan Ekonomi", CSIS Policy Brief (Jakarta: Centre for Strategic and International Studies, 2011)

Revenue from public service centers	53.5	72.8	73.2	77.6	78
Other	19.2	20.4	14.5	23.4	23.54
Grants	**0.8**	**0.8**	**3**	**4.5**	**4.5**
EXPENDITURES	**1435.4**	**1548.3**	**1472.3**	**1657.9**	**1683**
Central government	**965**	**1069.5**	**991.9**	**1139**	**1154.4**
Personnel	215.9	212.3	197.7	241.1	241.6
Material	188	186.6	128.5	159.2	200.7
Capital	152	168.7	139.5	193.8	184.4
Interest	122.2	117.8	100.5	113.2	113.2
Subsidies	208.9	245.1	346.4	316.1	317.2
Energy	168.6	202.4	306.5	274.7	274.7
Fuel	123.6	137.4	211.9	193.8	193.8
Electricity	45	65	94.6	80.9	80.9
Non-energy	40.3	42.7	39.9	41.4	42.5
Grants expenditure	1.8	1.8	0.1	3.6	3.6
Social expenditure	47.8	55.4	75.3	59	73.6
Other	28.5	82	3.9	52.9	20
Transfers to regions	**470.4**	**478.8**	**480.4**	**518.9**	**528.6**
DEFICIT	**124**	**190.1**	**144.6**	**150.2**	**153.3**
(% of GDP)	1.5	-2.23		-1.62	-1.65
FINANCING	**124**	**190.1**	**179.7**	**185.8**	**153.3**
Domestic financing	125.9	194.5	199.2	194.9	172.8
Foreign financing (net)	-1.9	-4.4	-19.5	-9.1	-19.5
BASIC ASSUMPTIONS					
GDP growth (%)	6.7	6.5		6.8	6.8
Inflation (%)	5.3	6.8		4.9	4.9
Exchange rate (average Rp/$)	8800	9000		9300	9300
SBI interest rate (average %)[b]	6	5		5	5

Crude oil price (average $/barrel)	90	105		100	100
Oil production (average '000 barrels/day)	950	930		900	900
Gas production (mboepd) [c]	-	-		1360	1360

Source. Ministry of Finance, Government Budget Key Data 2007-2013, 2013

Regulated Imports, Rent Seeking and High Inflation

Recently, the SBY government often issued import regulations. This paper discusses recent regulated imports cases, which have become nation-wide issues, regulated import of beef, onion and garlic.

Beef Imports Regulation

The case began when government, i.e. Ministry of Agriculture, introduced self-sufficiency program of beef in 2014. Following this objective, importation of beef is regulated. Based on Law number 18/2009 on Animal Husbandry and Animal Health, importation of animal products/ livestock is subject to the approval of Minister of Trade upon recommendation from Minister of Agriculture. Two ministerial decrees regulate the importation. First, the Trade Minister Regulation number 24/M-Dag/Per/9/2011 on import and export of animal and animal products which requires importers and exporters of animal and animal products to get import approval from Trade Minister. Second, the Minister of Agriculture decree number 50/2011. To get the importation permit, the prospective importers have to apply as Registered Importer (IT) – Animal and Animal Products. Once registered as Registered Importer (IT) for Animal and Animal Products, importers have to seek approval to import. The documents required for this are imports plan for the next 6 months, recommendation from Directorate of Animal Husbandry and Health for animal and/or fresh animal products, importation approval recommendation (RPP) from Directorate of Animal Husbandry and Health, Agricultural Ministry, Import Identification Number (API)- Producer or API-General, IT- Animal/ Animal Products and sales contract with an industry and/or hotel restaurant and catering (HOREKA) which states the types and the amount of animal products clearly. To get the RPP from Directorate of Animal Husbandry and Health, importers are required to have letter of recommendation from Provincial Agriculture Office.

According to these existing regulations, three approval letters needed to import beef. In addition to the approvals, beef importation is also subject to certain quota, which is set at the coordination meeting chaired by the Coordinating Minister for Economic Affairs. In 2012, governments cut the beef import quota from 100,000 to 34,000 tons. Unfortunately, miscalculated, the supply of local beef was not sufficient to accommodate the demand of 509,000 tons. This had resulted in the price hike and shortage of beef supply.

Cross accusations among the relevant ministries related to the increase in beef price occur. World Bank (2013) suggested the sharp increase in beef price was due to the decline in supply of beef, the rise of world price of beef and the depreciation of rupiah.[15]

For the 2013 quota, the beef import quota was set at 80,000 tons at the Coordination Meeting on November 28, 2012 with allocation such that 60% of imports are cattle (267,000 cattle or equivalent to 48,000 tons of beef) and 40% imports are beef (32,000 tons).[16] The company quota allocation was set by Minister of Agriculture.[17] There was an allegation of irregularities in company quota allocation and the Corruption Eradication Committee (KPK) has arrested suspects in this case, including one of the leaders of Indonesian political party.

Quota and other import restrictions are often used to protect domestic producers, in this case cattle ranchers. The non transparent quota allocation and import approvals might benefit certain parties, the rent seeker, be it a company that receive the quota allocation or the person who has the authority to grant the quota and approvals. Collusion between officials and businessmen to obtain more profits tend to take place.

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[15] World Bank, *Indonesia Economic Quarterly*, March 2013.

[16] Ministry of Agriculture, *RPP Approval Process 2013*, available in http://ditjennak.deptan.go.id/berita-376-proses-penerbitan-rekomendasi-persetujuan-pemasukan-rpp-daging-sapi-2013.html

[17] "Celah Kebijakan Impor Daging Sapi," *Kompas*, 5 February 2013.

Garlic and Onion

Import regulations on garlic and onion are also non transparent and had also resulted in substantial price increase. During the period of January to March, one kilogram of garlic can cost as high as Rp 70,000, while one kilogram of onion can be as high as Rp 64,000 in contrast to the normal prices of Rp 20,000 and Rp 23,000 per kilogram respectively. Jamhari (2013) argued there were three factors contributing to the price hike, i.e, the high consumption for these two commodities, the disrupted distribution system and the decline in production.[18] Domestic production of onion was usually sufficient to supply 90% of domestic demand, however due to the rainy season, the domestic production was distorted. In contrast, 90% of the garlic consumption is met through imports. The lack of domestic supplies of both commodities are compounded by government regulations on horticulture imports, the Minister of Agriculture Regulation No. 60/Permentan/OT.140/9/2012 on Recommendation of Horticultural Products Import and Trade Minister Regulation No. 60/M-DAG/PER / 9/2012, the Second Amendment to the Regulation of the Minister of Trade No. 30/M-DAG/PER/5/2012 on the Import of Horticultural Products. The new regulations, entered into force on September 2012, required importers of horticultural products to obtain RIPH (Horticultural Products Import Recommendation) and PI (Import Approval). The import approvals and quota allocation was issued relatively late that distort the supply. In addition, the non-transparency of the issunce of approvals and quota allcoations gave room for collusion and benefited rent seekers at the cost of consumers and other producers who use the imported goods as inputs. For the case of food commodities such as onion and garlic, the policy has also contributed to higher inflation. BPS announced that the March inflation was at 0.65%, where the increase of prices of onion and garlic contributed to the inflation around 0.44% and 0.2% respectively. Overall, annual inflation (yoy) in March was 5.9%, which was already above government and the Bank of Indonesia upper limit inflation target.

One alternative to these non-transparent policies is adopting import tariff, which can have similar impact on quantity as import quota

[18] Keswara "Importir dan Pelayanan Picu Harga Bawang Merah Naik," *Sindonews*, 21 March, 2013.

but minimizes the possibility of collusion among policymakers with the particular parties. The import tariff should also be complemented by a mechanism where tariff can be lowered automatically when domestic supply is inadequate due to bad weather or other factors. However, this mechanism should be backed up with an up-to-date market knowledge and speedy decision-making.

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