

MISGUIDED POLICIES TO PROTECT THE POOR

Indonesians eat the most expensive rice in ASEAN and are deprived of better prices and better shopping environments

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Indonesia always offers opportunities and obstacles, choices and challenges. 2007 will be no different. On the plus side, the macro economy has regained its footing after absorbing the impact of 2005's sharp reductions in fuel subsidies and the subsequent double-digit inflation. The Rupiah is now holding its own against the Yen and the Euro and gained almost 10% against the fading USD last year. Inflation had dropped to 6.6% year-on-year against over 15% through last October. Foreign exchange reserves are very high and growing at over \$42 billion, even though the government pre-paid its \$7 billion IMF debt last year.

As important as renewed macro-stability is, the recovery of the consumer sector after a lost year absorbing double-digit inflation and adjusting to higher fuel prices, is equally crucial. The consumer sector is important because, until the government finds its way through the thicket of bureaucratic, political and vested interest obstacles blocking private sector investment in infrastructure, the consumer sector will remain the Indonesian economy's only functioning dynamo.

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Most disturbing in this regard is the government's persistent failure to recognize the importance of the consumer sector to growth, stability and equity. This blindness encourages it to continue to embrace a raft of out-moded protectionist policies that are anti-growth, anti-jobs and anti-poor. Ironically, a number of the worst of these policies continue to be embraced because they are thought to be pro-poor. These include the protection of rice, allegedly to protect Indonesia's multitude of poor agriculturalists; high-cost telecommunications services, allegedly to provide money to expand the network; and restrictions on the booming modern retail sector, allegedly to protect the *kaki lima* traders that surround many of Indonesia's wet market.

All of these policies condemn Indonesia's consumer to inadequate supplies of low-quality consumer goods and services and prevent the creation of low-and semi-skilled job opportunities in modern sectors that frequently offer more training, better wages and are more likely to pay appropriate taxes. They also serve to protect entrenched management and trading elites against transparency, accountability and competition.

The latest decision to allow rice imports was a correct decision, but it came only after prolonged debate as Indonesians were eating the most expensive rice in ASEAN. The problem only serves to highlight the consequences of the government's determination to protect the country's unproductive rice farming sector and the vested interests of the traders who profit from privileged trading arrangements. More poor people eat rice than grow it and every rupiah spent subsidizing the rice sector is another hungry child. The current system is expensive and anti-poor.

Like many countries, a confused romanticism based on (usually incorrect) images of prosperous, hardy farmers of by-gone days combines with the powerful vested interest of a trading and regulatory elite to keep food prices high and further burden the poor (the supposed beneficiaries) with high food prices. All citizens, but especially the poor, are entitled to the best quality food and services at the lowest possible international prices, especially when those services are subjected to regulatory interventions and/or the use of public funds.

Of much less immediate consequence, but equally demonstrative of the government's misguided attempts or cynical claims to help low-income Indonesians, is the recent announcement of its intention to restrict the growth of the modern retail trade on the grounds that it is hurting Indonesia's traditional small traders and the so-called *kaki lima*.

There is no doubt that small scale retailers are dying breed in Indonesia as they are everywhere in the world. By attempting to prevent the growth of the modern retail trade, be it represented by huge hypermarkets or small, strategically located mini-marts, the government is limiting consumer choices and preventing the establishment of cleaner, more pleasant and often cheaper shopping options, especially those near the country's out-moded and often unsanitary wet markets. The elite regulators who have access to modern shopping somehow think it is all right to deprive others of this opportunity.

Moreover, the modern retail sector supplies more salaried employment for Indonesia's young under skilled job seekers. It is likely that every *kaki lima* who closes, there or four new unskilled or semi-skilled jobs are created. And some of these jobs often provide at least a modicum of training with a chance of upward mobility that the old retail system denies them. To frustrate the rapid expansion of this system perpetuates another outmoded economic sector, retards the creation of modern jobs and denies better price and better shopping environments to many middle-and low income shoppers.

The same is true on a larger scale of Indonesia's over-priced telecoms sector. The abuse of the Indonesian consumer by this sector is worthy of an article in its own right. I will close this essay by just highlighting the problem as it, too, demonstrates institutionalized contempt for the consumer and the bureaucratic instinct to protect established producers against change and competition. By pressing the state-owned industry giant, PT Telkom, to pay higher and higher dividends, instead of expanding its fixed-line and wireless services in a systematic and aggressive fashion, the government is widening the digital divide. Only companies and the very wealthy can afford regional-quality telecom services. The rest of us have to make do with the highest prices and slowest services in the region, where we have them at all.

All of these failures are a result of a desire to protect an out-moded legacy of services and systems. Legislators and policy-makers should ask themselves this simple question: "Are we providing our citizens with high-quality, competitively priced goods and services in crucial food and infrastructure sectors? If not, we will end up with a museum economy that offers pleasure to a small elite, gets very few new visitors, and is by-passed by companies that adopt policies that are pro-consumer, pro-jobs and pro-poor.

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