

What is the Potential to Increase Exports of Nebraska Beef to Indonesia?

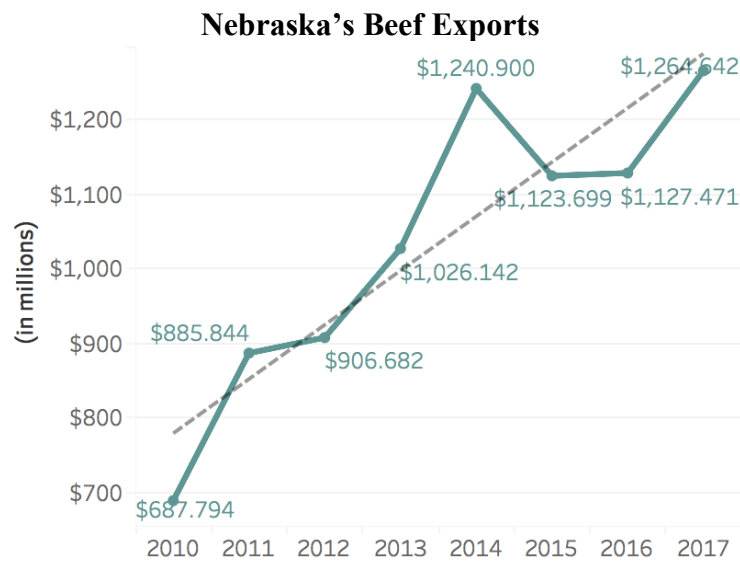
An Undergraduate Briefing Paper

By Olivia Coffey

May 2019

Introduction

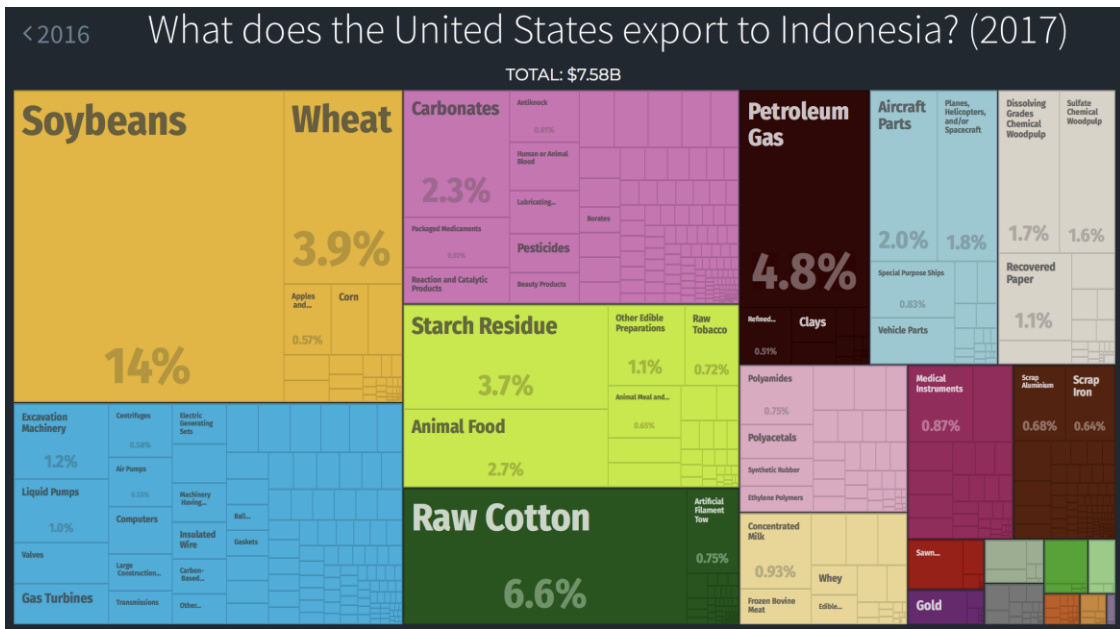
Corn and beef are vital to Nebraska's economy. Nebraska farmers grow over 1 billion bushels of corn per year, 40 percent of which is given to the more than 6.5 million cattle that are fed annually in Nebraska.¹ It is not difficult to see the importance of beef to the economy of Nebraska and the economy of the United States as a whole. In 2018, Nebraska exported more than \$1.44 billion in beef, more than any other state.² Since there are nearly four times as many cattle as there are people in Nebraska, it is crucial to the economies of Nebraska and the United States to continue to increase beef exports and to seek out more potential importing countries for world-famous Nebraska beef. A good prospect is Indonesia.



Source: opportunity.nebraska.gov

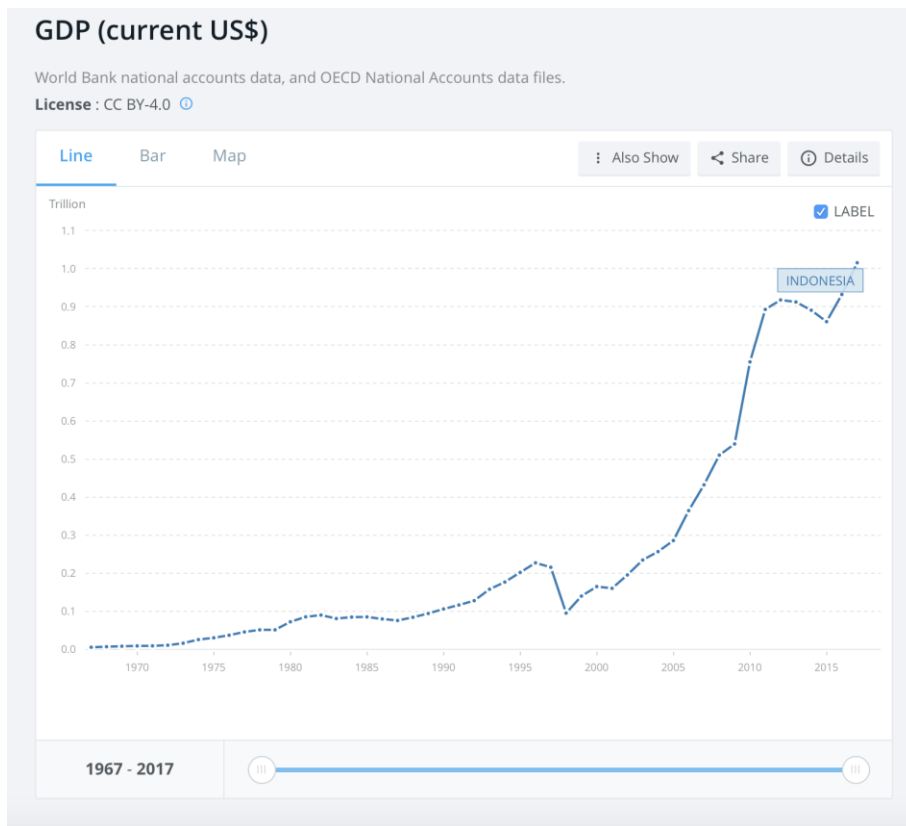
Background

There is a strong foundation for trade and investment between the United States and Indonesia. Over the past ten years, two-way trade in goods between the United States and Indonesia has grown by roughly 36 percent.³ In 2018, the U.S. goods exports to Indonesia increased by 19.8% from 2017, with over \$8.2 billion in that year alone.⁴ The United States primarily exports soybeans, aircraft, machinery, animal feed, and cotton to Indonesia, and Indonesia exports textiles, rubber, footwear, machines, plant oils, and seafood to the United States.^{5 6} Additionally, in 2017, U.S. foreign direct investment (FDI) in Indonesia was \$15.2 billion, while Indonesian investment in the United States was \$311 million.⁷ This shows a strong relationship between these countries, demonstrating that there is potential for great progress in increasing trade between these countries.



Source: Source: AJG Simoes, CA Hidalgo. The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development, atlas.media.mit.edu

The Indonesian economy has shown huge growth in recent years, which demonstrates large potential for the country as a future trade partner. In 2000, Indonesia's GDP was only \$165 billion; by 2017 it had grown to \$1 trillion.⁸ Furthermore, it is predicted that by 2030, the economy of Indonesia will be one of the largest in the world.⁹

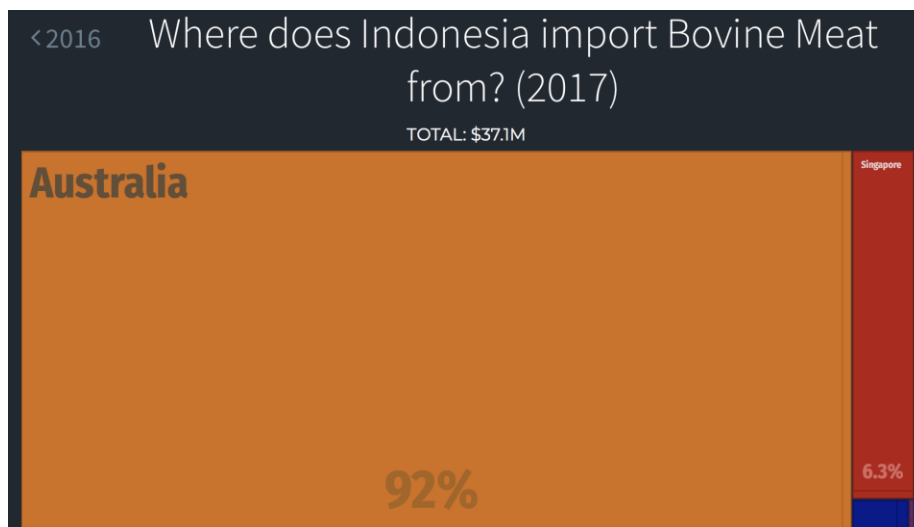


Source: The World Bank

A key driver of economic growth in Indonesia, with implications for trade, is the growth of the country’s middle class and “aspiring” middle class. This “aspiring class” refers to those who are no longer in poverty but have not yet achieved the level of economic security that the middle class has.¹⁰ Additionally, it is this group that has the most potential for the growth of the country’s economy and stability. The middle class of Indonesia accounts for 20 percent its population; 45 percent are in the “aspiring” middle class.¹¹ As of December 2017, the middle class included 52 million people and was responsible for 43 percent of total household consumption.¹² The growth of the middle class, through the aspiring middle class, is a great opportunity for the United States to increase its exports, specifically Nebraska beef, to Indonesia, as research has shown that this growth will increase consumption of diversified food options in Indonesia, including beef.¹³

Analysis

Beef consumption in Indonesia has grown significantly. In 1990, the average supply of beef per person in Indonesia was 1.18 kg per year, and in 2017, that number was almost 1.82kg.¹⁴ These numbers may seem small, but with the rapid growth of Indonesia’s middle class and economic consumption, these numbers are expected to rise significantly. Currently, the U.S. exports only 13 percent of the world’s beef, the fourth most of any country, with the majority of this coming from Nebraska.¹⁵ Brazil exports the most with 19 percent, India is second with 18 percent, and Australia is third with 15 percent.¹⁶ As of 2017, Indonesia imports 92 percent of its beef from Australia, and after the implementation of the new trade agreement between these two countries signed in March of 2019, the number of cows exported to Indonesia is projected to grow four percent every year until it reaches 700,000 live cattle.^{17 18}



Source: AJG Simoes, CA Hidalgo. The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development, atlas.media.mit.edu

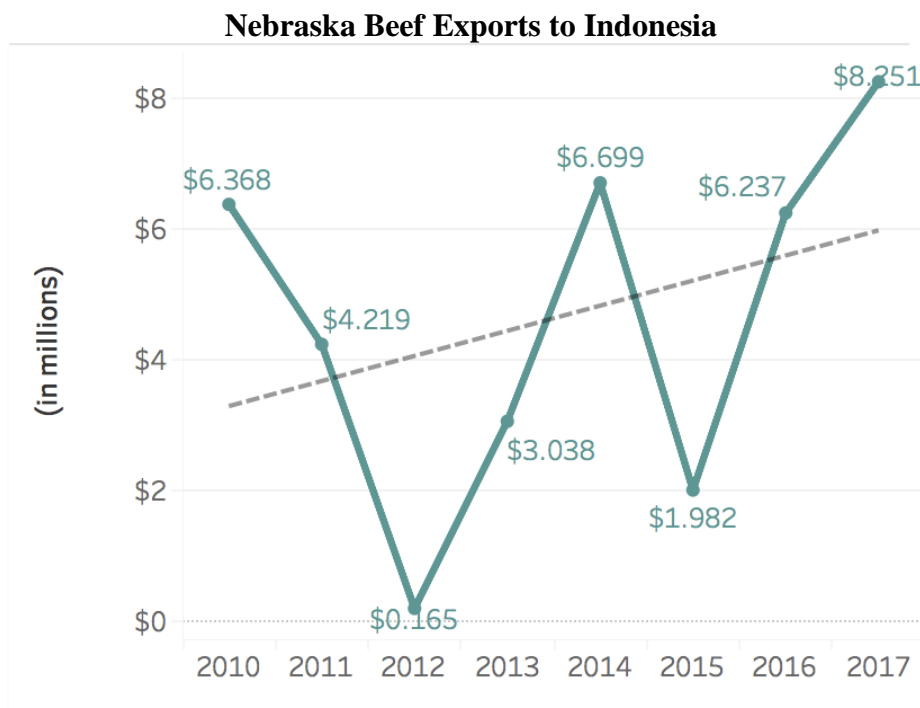
One of Indonesia’s key trade agreements is the Association of Southeast Asian Nations (ASEAN) free trade zone which includes the countries of Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. This agreement allows for low to no tariffs between these nations.¹⁹ Although the country of Australia is not part of ASEAN, its proximity to the member countries is an advantage to Australia for building its relationship with ASEAN. This relationship supports growth of the economies of both the ASEAN countries and Australia and increases Australia’s engagement with Southeast Asia.²⁰ This, along with the recent

trade agreement between Indonesia and Australia, will provide a challenge for Nebraska beef to be exported to Indonesia.

Another challenge facing the United States is the process that U.S. meat establishments must go through before exporting beef to Indonesia. Indonesia requires that these establishments complete lengthy questionnaires that must be inspected by Indonesian officials before the establishment's beef can be exported to Indonesia. However, this requirement went against World Trade Organization (WTO) regulations. In 2015, the United States requested that the WTO investigate U.S. claims of Indonesia's unfair regulations. As a result, in 2017, the U.S. won this dispute against Indonesia.²¹

Outlook

Nebraska government officials are optimistic. The United States currently has a bilateral Trade and Investment Framework Agreement (TIFA) with Indonesia, and because of this, exports have grown substantially since the agreement began in 1996. In 2017, Nebraska exported over \$1 billion in beef and beef products with over \$8 million of this being exported to Indonesia. This was a 30 percent increase in beef exports to Indonesia since 2010.²²



Source: opportunity.nebraska.gov

The United States has recently made great efforts and progress in increasing its trade with Indonesia. The USDA Under Secretary of Agriculture for Trade Ted McKinney has recently made visits to Indonesia making progress in opening more markets, especially for agriculture exports to the country. Nebraska, too, is making progress in this area. In January 2019, Congressman Don Bacon met with delegates from Indonesia to discuss increasing exports of Nebraska products such as corn, soybeans, and beef. Cindi Allen, Assistant Secretary of State for Nebraska says, “the potential for Nebraska beef looks promising for continued growth in exporting beef to Indonesia.”²³

Large projected growth in the economy of Indonesia, as well as an increase in trade between the United States and Indonesia show great promise for the economy of the United States and especially Nebraska. With an increase in the middle class of Indonesia and the increase of consumption in the country, the market for diverse foods, including beef, will grow. This offers a considerable opportunity for Nebraska, and with the efforts being made by the government of the state of Nebraska, we can and should be highly optimistic in the future.

Endnotes

¹Nebraska Beef Council. (2019). Nebraska the Beef State. Retrieved 9 May 2019, from <https://www.nebeef.org/raising-beef/state-national-facts>

²Office of Governor Pete Ricketts. (2019). *Gov. Ricketts Proclaims May as Beef Month in Nebraska* [Press release]. Retrieved from <https://governor.nebraska.gov/press/gov-ricketts-proclaims-may-beef-month-nebraska-1>

³U.S. Census Bureau. (2019). Trade in Goods with Indonesia. Retrieved 9 May 2019, from <https://www.census.gov/foreign-trade/balance/c5600.html>

⁴Office of the U.S. Trade Representative. (n.d.). Indonesia. Retrieved 9 May 2019, from <https://ustr.gov/countries-regions/southeast-asia-pacific/indonesia>

⁵AJG Simoes, CA Hidalgo. The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development. Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence. (2011) Retrieved 7 April 2019, from https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/usa/idn/show/2017/

⁶Ibid.

⁷Office of the U.S. Trade Representative. (n.d.). Indonesia. Retrieved 9 May 2019, from <https://ustr.gov/countries-regions/southeast-asia-pacific/indonesia>

⁸The World Bank. (2018) GDP (Current US\$) Indonesia. Retrieved 9 May 2019, from <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=ID>

⁹Australian Government Department of Foreign Affairs and Trade. (2019). Indonesia-Australia Comprehensive Economic Partnership Agreement. Retrieved 9 May 2019, from <https://dfat.gov.au/trade/agreements/not-yet-in-force/iacepa/pages/indonesia-australia-comprehensive-economic-partnership-agreement.aspx>

¹⁰The World Bank. (4 Dec. 2017). Indonesia's middle class vital for the country's future. Retrieved 7 April 2019, from <https://www.worldbank.org/en/news/press-release/2017/12/04/indonesia-middle-class-vital-for-the-country-future>

¹¹Ibid.

¹²Ibid.

¹³World Food Programme. (June 2018.) Modeling the Future of Indonesian Food Consumption. Retrieved 7 April 2019, from <https://reliefweb.int/report/indonesia/modeling-future-indonesian-food-consumption-june-2018>

¹⁴Our World in Data. (n.d.) Meet Supply per Person, Indonesia. Retrieved 7 April 2019, from <https://ourworldindata.org/grapher/meat-supply-per-person?tab=chart&time=1961..2013&country=IDN>

¹⁵World Food Programme. (June 2018.) Modeling the Future of Indonesian Food Consumption. Retrieved 7 April 2019, from <https://reliefweb.int/report/indonesia/modeling-future-indonesian-food-consumption-june-2018>

¹⁶Beef 2 Live. (11 May 2019). World Beef Exports: Ranking of Countries. Retrieved 11 May 2019, from <https://beef2live.com/story-world-beef-exports-ranking-countries-0-106903>

¹⁷JG Simoes, CA Hidalgo. The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development. Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence. (2011) Retrieved 7 April 2019, from https://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/idn/show/0201/2017/

¹⁸The Diplomat. (5 March 2019). *Indonesia and Australia Ink Free Trade Agreement*. Retrieved from <https://thediplomat.com/2019/03/indonesia-and-australia-ink-free-trade-agreement/>

¹⁹Global Business Guide Indonesia. (2016). Indonesia in Free Trade Agreements. Retrieved 9 May 2019, from http://www.gbgindonesia.com/en/main/business_guide/2016/indonesia_in_free_trade_agreements_11504.php

²⁰Australian Government Department of Foreign Affairs and Trade. (2019). Indonesia-Australia Comprehensive Economic Partnership Agreement. Retrieved 9 May 2019, from <https://dfat.gov.au/trade/agreements/not-yet-in-force/iacepa/pages/indonesia-australia-comprehensive-economic-partnership-agreement.aspx>

²¹Feedstuffs. (10 Nov. 2017). U.S. wins meat WTO dispute against Indonesia. Retrieved from <https://www.feedstuffs.com/news/us-wins-meat-wto-dispute-against-indonesia>

²²Opportunity Nebraska. (Feb. 2019). Nebraska Exports. Retrieved 7 April 2019, from <https://opportunity.nebraska.gov/research/nebraska-exports/>

²³ Cindi Allen, Assistant Secretary of State for Nebraska, email interview with author, April 3, 2019.