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Indonesia's Modern Food Retail Sector Interaction With Changing Food Consumption and Trade Patterns

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What Is the Issue?

The economic growth and urbanization in Indonesia over the past decade has been accompanied by a fast-growing modern retail food sector and by changes in food consumption patterns. As the world's fourth most populous country, Indonesia provides a case study of the relationships among food consumption, sales, trade, and investment. In this report, we examine changes in food consumption patterns and measure the growth of modern food retail chains, packaged food purchases, and food imports in Indonesia during the past decade.

What Were the Major Findings?

Indonesian food consumption patterns have changed since the late 1990s, with dairy and meat consumption growing and grain consumption falling on a per-person basis. Packaged and prepared food sales have grown strongly. Growth in household incomes and a sustained shift of population from rural to urban areas have contributed to these changes. Indonesia's food consumption changes are consistent with evidence that global food consumption patterns have been moving toward more meats, dairy products, and sugar. However, animal product consumption per person remains below the level of neighboring countries, and calorie intake has changed little over the last decade of strong economic growth.

While most Indonesians purchase their food from traditional retail outlets, modern food retail stores sell an increasing share of food products, particularly packaged goods, to urban consumers. Sales from modern food retailers increased from about US\$1.5 billion in 1999 to over US\$5.6 billion in 2009, and their share of total retail food sales rose from 5 to 11 percent over that period. Efficiencies in the modern chains do not appear to be forcing retail food prices down. However, if the modern stores can match traditional shops on product price, they can attract shoppers by offering additional value through these attributes. Modern stores offer refrigeration, air conditioning, and quality assurance that are usually not found in traditional shops. Refrigeration, especially for meats and dairy products, helps expand consumption and address consumers' food safety concerns.

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Food imports have grown, but not as a proportion of food spending. In part, this may be the result of regulations by the Indonesian Government, which has voiced support for free trade in goods but often encourages food self-sufficiency in practice. Farmers sometimes wish to slow or stop competition from imports. At the border, imports of some products are effectively banned and many other foods face slow and uncertain import procedures. Indonesia's requirements for Government-issued registration numbers for each import can be a particularly serious impediment. Current plans to restrict the number of ports through which horticultural imports are allowed to pass could lead to lower imports in the future. Other regulations limit the location of new large stores. As a result, modern food retailing in Indonesia faces constraints in procuring products efficiently from both international and domestic sources and in obtaining sites for expansion.

Growth in Indonesia's modern retail food sector and ongoing changes in food consumption patterns are expected to continue. U.S. agricultural exports to this important market, which already obtains 20 percent of its food imports from the United States, stand to benefit from this growth. However, changes in food retailing and in food consumption patterns in Indonesia have been slower than in some comparable countries and might occur more quickly if economic barriers and constraints were removed.

How Was the Study Conducted?

We relied on market information collected by USDA's Foreign Agricultural Service in Indonesia through May 2012 and additional interviews by the authors in the cities of Jakarta and Bandung. We used detailed, recent Indonesian Government data on foreign trade and data from the market-research firm Euromonitor on the food retail environment to identify trends and shares. In our report, we draw on and update previous literature on Indonesia's food sector.