

## Abstract

### Impact of Rice Trade Liberalization on Farm Households in Central Java

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The objective of this study is to examine the impact of rice trade liberalization on farm households and how rice price affects to the farm households in Central Java, Indonesia. Using the micro household data collected by joint research team under the Japan Society for the Promotion of Science and The Directorate General for Higher Education of Indonesia (JSPS-DGHE) Core University Program in Applied Bioscience in Central Java, we examine the impact of rice trade liberalization in Central Java taking into consideration both income effect and substitution effect on rice consumption. For that purpose, we analyze total household income including self consumption and not including self consumption separately and examine the effect of rice price change under trade liberalization on farm household real income.

The estimation results of income determination functions show that rice price had negative influence on total income of household not including self consumption. This means, a declining in rice price will increase total income of household not including self consumption. If income effect is very large enough, the total effect should be negative. This means a decline in rice price will increase a marketed surplus. The increase of the marketed surplus increases the household income non self consumption, because they tried to decrease self consumption. And then the real income increases and the supply rice to the market increases. This study concludes that rice price has a negative correlation to income. It indicates by the implementation of trade liberalization policy, rice price will decline and household cash real income increases.