



Relationship of Cigarette Companies, Middlemen and Tobacco Farmers: Core-Periphery Analysis

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ARTICLE INFO	ABSTRACT
Published Online: 22 December 2022	This article aims to examine the pattern of relationships that occur between cigarette companies, middlemen and tobacco farmers in the context of the political economy. General facts show that the price aspect is the point where tobacco farmers are structurally dependent on companies and middlemen. This pattern is examined in detail with the construction of the core-periphery principle in political economy. Descriptive approach is supported by literature study and analyzed with content analysis approach. The results obtained are, firstly, the scheme of dependency patterns between companies, middlemen and farmers. Secondly, the government policy in the breaking the chain of structural dependency is investigated. Underlying on these results, this article proposes optimal ways to control the structural linkage between companies, middlemen and tobacco farmers.
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KEYWORDS: cigarette, companies, middlemen, farmers, core, periphery	

INTRODUCTION

More than four centuries tobacco entered Java and smoking tradition, has been a part of Indonesian culture (acculturation) for so long, which does not only live in Java (Sunaryo, 2013). Tobacco is a very important commodity. Because the role of tobacco in the economic life of the community is very large, namely as one source of income for farmers, laborers, and traders, even regional income.

The tobacco industry in Indonesia has been started for a long time, and the contribution of the industry is of no small value. The 2019 state budget targets Rp.158.9 trillion of state revenue to be obtained from excise from tobacco products.

In 2000 Indonesia succeeded in achieving a production of 200,000 tons of tobacco. And at its peak it experienced a total production of up to 260,818 tons in 2013. But the achievement until 2014 has decreased dramatically to 164,448 tons and never again reached 200,000 tons until 2017 (BPS, 2017).

Domestic tobacco production is currently still below 200,000 tons per year, while market demand has reached more than 300,000 tons per year, Indonesia's tobacco imports are around 100,000 tons per year (Industry Update Bank Mandiri, 2017).

The downstream tobacco industry produces many benefits for cigarette factory owners and the government,

because it gets a lot of tax revenue from the imposition of excise tax on tobacco products which continues to rise every year. The increase in tobacco excise tax will not be imposed on consumers, and cigarette companies that already have a fixed market share will continue to benefit from the sale.

However the problem is not only stimulated by the price problem, according to Lubis (2015), the problem is risen by injustice and the monopoly of the tobacco trade by manufacturing graders. The main obstacle for tobacco farmers is the problem of determining the quality and price of tobacco. There are often differences in tobacco quality claims between farmers and buyers. Uncertainty and the absence of these standards caused farmers to suffer losses

The helplessness of tobacco farmers in tobacco trading includes determining prices, determining tobacco quality and determining tobacco weight. This condition causes losses for farmers because the skipper can easily play with prices. With the new regional regulation on tobacco trading, it is hoped that the price monopoly will no longer occur in the process of buying and selling tobacco. Opportunities of manipulation are came from the elite or the group of mafia. In a political economy perspective, the role of the business bureaucrat is quite significant which will affect the economic process. So in this study we want to see how the pattern of relationships between cigarette

companies, middlemen, and tobacco farmers in the perspective of Core-Periphery

LITERATURE REVIEW

Trading Activities or Marketing Channel

Trading activities are productive activities because they provide the use of forms, time and place of ownership (Sudiyono 2001). According to Saefudin and Hanafiah (1983), the trading system consists of producers, consumers and intermediary traders and service providers.

Saefudin (1983) states that two main strategies increase the efficiency of trading, namely: expanding the commodity market and reducing the trading system margins, namely: Expansion of the commodity is pursued in two ways, namely increasing the demand of end consumers and implementing orderly marketing, namely by making maximum use of market potential existing by regulating the distribution of goods into the market according to the time, place, usage and class of consumers.

The agricultural product marketing channel is a channel used by producer farmers to channel agricultural products from producers to consumers. The institutions that are actively involved in this channel are producer farmers, traders, wholesalers, retailers and consumers. Each of these trading institutions performs trade functions such as: buying from farmers (producers) selling to the next trader, lifting, sorting, storing, etc. (Rahardi, 1993).

Core-Periphery

The concept of the center and periphery (Core-Periphery) is expressed in various views by social scientists. His fault was Friedman (1966), he divided the world into two major parts, namely the dynamic Center and the static periphery, and proposed 4 regions as follows:

1. The Central Region is a concentrated metropolitan economy with a high capacity for innovation and change. Looks like a hierarchical network from the National Capital to remote areas.
2. The Upper Transitional Region is bordered by the center, suitable for resource development and exploitation. Distinctive feature The upper transitional region is the development along the highway of two major cities.
3. Resource Border Area is a suburb of new settlements.
4. Lower Transitional Region is an area that is stagnating or declining in capacity,

According to Myrdal (core region) is a magnet that can strengthen economic growth by itself, because of the cumulative causes for development (cumulative upward causation), such as the flow of workers from the periphery to the center (P to C) related to the need for skilled workers, capital and trade goods that spontaneously develop in a free market economy to support growth in a particular location or region (Henderink & Murtomo, 1988).

Myrdal's analysis gives the impression of being pessimistic, he argues that polarization appears stronger than the spread of development, demand for factors of production will pile up in urban areas that benefit him, and vice versa in rural areas that are not profitable will thin out.

Wallerstein (in Effendi and Malihah, 2011: 65) explains that the world capitalist economy is divided into three levels, namely: the core states (core), semi-peripheral countries (semi-Periphery), and peripheral countries (Periphery). The essence of Wallerstein's view is that he opposes a bipolar world where there are only poles of strong states (Core) and weak states (Periphery).

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RESEARCH METHOD

This study uses descriptive methods that describe and interpret objects according to what they are (West, 1982 in Sukardi, 2004). This research is also often called non-experimental, because in this study the researcher did not control and manipulate research variables. Descriptive research is research that studies the problems in society, as well as the procedures that apply in society and situations, including about relationships, activities, attitudes, views, and processes that are ongoing and the influence of a phenomenon.

Using descriptive methods, researchers allow to construct relationships between variables, test hypotheses, develop generalizations, and develop theories that have universal validity (West, 1982 in Sukardi, 2004). In addition, descriptive research is also research, in which the collection of data to test research questions or hypotheses relating to current circumstances and events. They report the state of the object or subject being investigated according to what it is.

Descriptive method is to determine the pattern of relationships that occur between cigarette companies, middlemen and tobacco farmers, as well as using the content analysis method approach, namely in-depth analysis of an issue or information that has been published.

RESULTS AND DISCUSSION

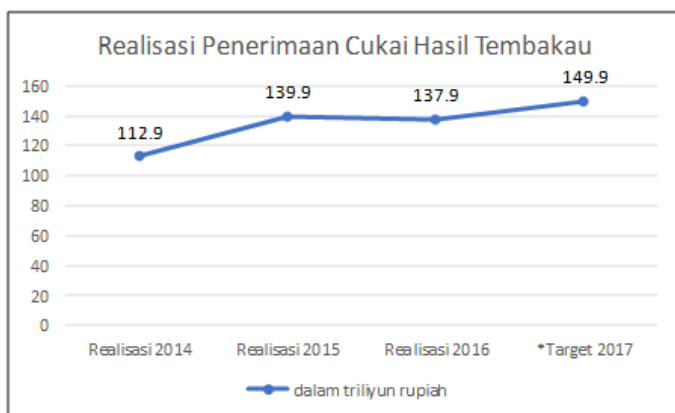
Government Income and Cigarettes Company

From the production side, Indonesia is one of the biggest tobacco producers in the world. Indonesia ranks 6th as the world's largest tobacco producer. Indonesia's production is 1.91% of the world's tobacco production. Whereas tobacco production in China, Brazil and India produces 64% of total world production (Ministry of Health, Republic of Indonesia, 2013. www.depkes.go.id).

In documents issued by the Ministry of finance through the Directorate General of Compilation of the State Budget and the Directorate General of Budget (www.depkeu.go.id), the document contains information on the 2017 State Budget. with the distribution of Rp. 149.9 trillion from tobacco excise, Rp. 0.2 trillion from alcohol excise, Rp. 5.5 trillion from MMEA excise, Rp. 1.6 trillion from other types of excise.

The performance report of the Directorate General of Customs and Excise in 2016 noted that the realization of tobacco excise revenue in 2016 amounted to Rp 137.9 trillion, in 2015 it was Rp 139.9 trillion, whereas in 2014 the realization was Rp 112.9 trillion. In other words, the growth of tobacco excise tax revenue in 2015 grew by 23.67% from 2014. While the growth is decreased -1.41% from 2015 to 2016.

Figure 1. Realization of Excise Receipt 2014-2017*



Source: Director General Customs and Excise, Ministry of Finance 2017

It's not only the government that gets a lot of profit from the rotation of the tobacco industry. But the factory owners or companies that are actually partners of Tobacco Farmers also enjoy benefits that are not small in number.

Table 1. Profit List of 4 Emiten Cigarette Companies in Indonesia Stock Exchange (million rupiah)

No.	Company	Profit 2018	Profit 2017
1	Gudang Garam (GGRM)	7.793.068	7.755.347
2	HM	13.538.418	12.670.534

	Sampoerna (HMSP)		
3	Wishmilak (WIIM)	52.186.278.119	44.172.542.990
4	Bentoel (RMBA)	(608,463)	(480,063)

Source : processed from financial report of 4 companies.

Tata niaga tembakau di beberapa daerah Indonesia

Nowadays tobacco products are very aggressively opposed by anti-tobacco activists, it starts from a framework approved by the UN, the Framework Convention of Tobacco Control (FCTC). The framework is intended to reduce tobacco consumption throughout the world is no exception in Indonesia. But Indonesia itself has yet to visit the ratification of the framework because it has a rational reason to protect tobacco farmers scattered in many parts of Indonesia.

But as an unsupervised product tobacco is free goods that can be traded by anyone, anytime and anywhere, and cannot be separated from market behavior related to supply and demand, the manner, form and time of presentation, seller and buyer policies, marketing channels, and approaches.

The government's good intentions to protect tobacco farmers apparently do not or do not work optimally. Until now the tobacco trade system in Indonesia is still unclear, many farmers do not understand the mechanism of tobacco trade so that it raises tobacco brokers. This refers to Santoso (2001) research as follows:

The cigarette manufacturer will notify the skipper about the tobacco needed, the quantity and quality, and if necessary the highest price that is promised will be paid. Instead, tobacco farmers tell bandol about the tobacco they want to sell, with or without determining the lowest possible price requested. Skipper and bandol always have relations with their relations. Thus bargaining between buyers and sellers does not take much time. If there is an agreement on price, the sale and purchase agreement can be closed immediately.

The sale of tobacco in the pattern above is very inefficient because it forms a long distribution chain.

In the Temanggung area which is also one of Indonesia's tobacco producing regions, there are also cases of long distribution chains such as the case above. Referring to Sari and Rusdijati's (2015) research, farmers do not directly sell their tobacco to cigarette factories, but must first pass through the "second hand", namely middlemen. This will delegate all the risks of the tobacco trade system to farmers.

Tobacco trading system in Temanggung Regency is that farmers as producers will be sold to intermediaries (traders, collectors, middlemen, skipper) and then brought to graders as

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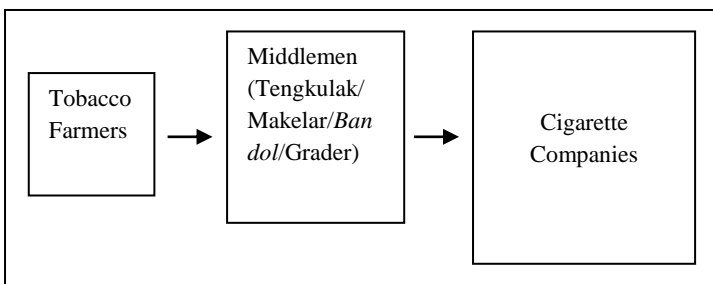
representatives of the manufacturers. Each grader will build a network of intermediaries, both exclusively and not. Farmers do not have the ability to determine the category of quality and price of tobacco produced. But when in the trade system, the determination of quality and price at the intermediary level is often different from that determined by the grader as the manufacturer's representative. All risks are borne by the farmer.

The long distribution chain is very detrimental to farmers, if it is more unfair for farmers is the determination of the price of tobacco not by farmers themselves, but by factories or middlemen. Syaiful, et al (2019) see the tobacco trade system in Pamekasan to be very fair for farmers, where prices are determined by buyers who are monopolistic in nature and do not match farmers' expectations related to the sales results. Determination of price and quality is very dependent on the decision of the trader or bandol or skipper. So it is very forced even though it is detrimental to the farmers having to follow their decisions regarding the determination of quality and price, otherwise the consequences will not be purchased tobacco.

Other findings from the study of Syaiful, et al (2019), from the complexity of the tobacco trading system, there are still more tobacco brokers who buy with a slash system. The position of the broker is under the bandol or downline. Pedagang ini merupakan asisten bandol yang tugasnya untuk menyuplay atau membantu bandol dalam mendapatkan tembakau dari para petani. Sedangkan tukang tongko' ini atau bandol hanya cukup duduk manis menyaksikan sortiran yang dilakukan juragan. Apabila sudah ada kesepakatan harga, maka terjadilah. Tukang tongko' ini akan memperoleh komisi dari pedagang atau petani. Komisi yang diterima biasanya sebesar Rp 1.000/kg.

This long distribution chain is also experienced by tobacco farmers in Jember district, research findings by Prasetyo (2017) that the price of tobacco is unilaterally determined by middlemen who are accomplices of factories or companies or the cigarette industry. This phenomenon makes the determination of price determination belongs to the middlemen and cigarette industry, thus providing a high bargaining position and vice versa for farmers having a low bargaining position and always losing. In addition, there is a very high dependence on middlemen.

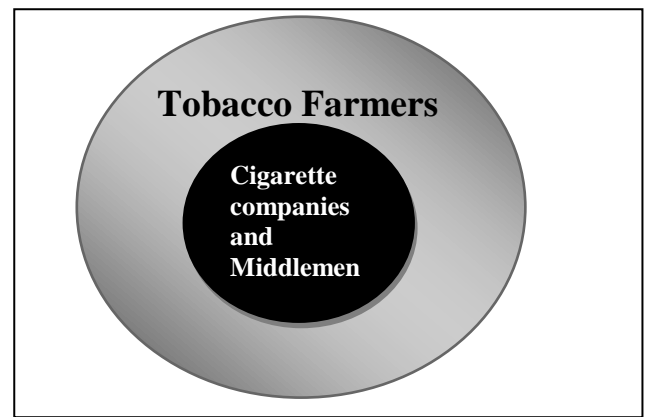
Figure 2. The Pathway of Tobacco Trading Activities



company determines the full price through the extension of the middlemen or can be called a broker / bandol. In the Core-Periphery concept there are parties which are referred to as core and parties which are referred to as periphery. The cigarette industry and / or middlemen are the core parties who determine the price of their tobacco unilaterally determining the price of tobacco on the basis of the quality of tobacco assessed by themselves. Meanwhile, tobacco farmers as their periphery must simply accept the price and quality decisions from the company or middlemen and cannot do anything about the decisions made by the core.

The simpler Core-Periphery pattern of tobacco management can be described as follows.

Figure 3. Core-Periphery pattern in Tobacco Pricing Decision



Source: Data processed

Fanani et al (2015), investigating on the effect of partnerships on tobacco farming risk in Bojonegoro district, reveals that farmers who partnered with PT Gudang Garam Tbk, could reduce the losses experienced by farmers due to production and price risks. The implementation of the Partnership Tobacco Intensification System (the name of the PT. Gudang Garam Tbk. Partnership program), in addition to providing higher productivity compared to non-partner farmers, can also produce higher quality tobacco, farmers' incomes are higher. The partnership relationship between tobacco farmers and PT. Gudang Garam, Tbk is a mutually beneficial relationship between farmers and cigarette companies. Farmers have land and labor, while the cigarette factory lends capital without interest and collateral. With the technical assistance and capital assistance, the risk of production experienced by farmers is reduced.

CONCLUSION

The long distribution chain causes tobacco trading to disadvantage farmers. Farmers accept unilateral price decisions made by cigarette companies through middlemen / bandol / brokers and the like, this happens in various tobacco producing areas in Indonesia. Core-periphery patterns are formed in which tobacco distribution chain, cigarette factories or companies and middlemen / bandol /

brokers and the like are the core or core parties that determine the decision, and the tobacco farmers are periphery or periphery parties that receive the consequences of the core.

What was done by one of the cigarette companies in Indonesia by collaborating with tobacco farmers' partners in Bojonegoro to help farmers in the production and sales process. At a minimum they are reduced tobacco farmers due to the risk of production and sales. This should be exemplified in several other tobacco producing regions in Indonesia.

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