

# CHAPTER I

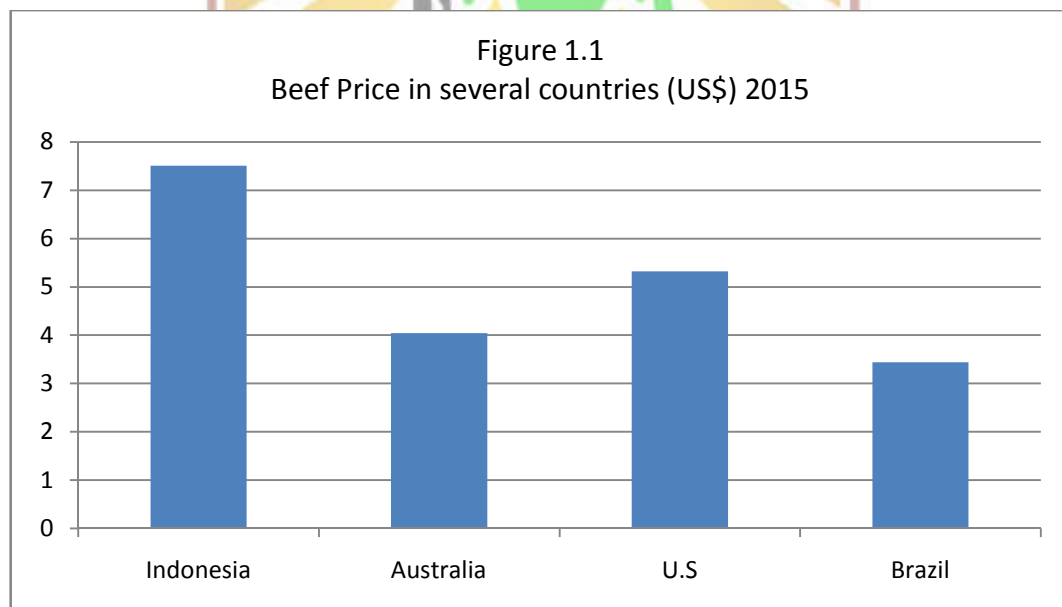
## INTRODUCTION

### 1.1. Background

A country has different needs, this led to their dependence on other countries due to the absence or non-fulfillment of natural resources. The different tastes, technological impact, income level and the other as the affect trade patterns that led to the level of domestic consumption and production is difficult to predict, furthermore the international world there will be a country's dependence on other countries. From this dependence, occurs trade (exports - imports) in order to fulfill people's living needs of a country. International trade will also be a competition between countries and also means of proving the efficiency of products and businesses that country has.

For compliance national staples such as beef, Indonesia has a long trade with importing beef from Australia and New Zealand. This is done as an effort to keep pace with domestic production, domestic consumption and stabilizing prices. As one part of the national staples by Ministry of Trade, Directorate General of Livestock for Ministry of Agricultural makes Program Self-Sufficiency Beef (PSDS 2014) with four basic activities, i.e. (1) the provision of feeder / local beef; (2) an increase in productivity and the reproducibility of local cattle; (3) prevention of productive female cattle slaughter; and (4) regulation of the beef stock in the country which also includes the stock, distribution, and marketing of cattle and beef. (Directorate General of Livestock, 2011).

Beef with rich protein expected to fulfill the nutritional needs of Indonesian. Data released by Statistics Indonesia, beef consumption is 0.26 kg/capita/year by 2015. There is a difference target for beef consumption for 2015 between Ministry of Agricultural and Coordinator Ministry for Economic Affairs, i.e. 1.75 kg/capita/year and 2.61 kg/capita/year. In terms of domestic production, there is an additional production by 5% to 523,926 tons for 2015 with an average price of beef/kg in 2015 around to US \$ 7.87 which was dropped to 497,669 tons in 2014. Data compiled by the Center for Indonesia Policy Studies (CIPS) from FAO, Statistics DKI Jakarta and numbeo.com, the price of beef from Malaysia, Australia, U.S and Brazil are US \$ 7.51; US \$ 4.04; US \$ 5.32 and US \$ 3.44. It shows Indonesia has the price of beef that was fantastic high in the world compared to Australia and Brazil.



Source : Complied by Center for Indonesia Policy Studies (CIPS)

The stability of beef prices is highly dependent on beef cattle production, transport between production centers and markets, the cost of slaughterhouses

were still high and the other transaction cost that will result. It is also influenced by imports of beef are still hampered by imports of beef cattle that do not provide adequate incentives for sustainable farming to efforts to increase production and achieving self-sufficiency in beef and beef cattle development requires long-term investments (Rusastra, 2014)

Many experts from various institutional concentration to beef strongly deplore the phenomenon of rising beef prices which always happens every year. This phenomenon is one of the strong evidence that food development of Indonesia in the future in the absence of food sovereignty and remain bound to dependency on imports from other countries, such as the unfulfilled needs of national staple for beef in fair value would endanger the sustainability of development in Indonesian food. In this case will be eroded Indonesian dream for food sovereignty and food security promoted by the government in recent decades. An outline, the State must guarantee the availability, affordability, and fulfillment of adequate food consumption, safe, quality and nutritionally balanced. To be able to effectively implement this obligation, then the state must take a control of natural resources to be used for the greater prosperity of the people (UUD 1945 Article 33, Act 3). Governments are required to be able to create a sustainable food security policy as an effort of improving the welfare of the nation to have access to basic needs, especially food availability i.e. beef.

So, in this case it can be conclude that what the problem of this condition and in this paper the writer will be take the case in Indonesia, how the situation of production and the prices of domestic and imported beef? How is the elasticity condition of beef price in Indonesia? How is the policy condition in Indonesia

thru trade policy?. So, based on the research problem above the writer is interesting in analyzing a research with title:

### **“Determinant of Beef Import in Indonesia”**

#### **1.2 Research Problem**

Beef as one of the basic needs of national should be fulfilled by production at price relatively reasonable, but from Statistics Indonesia, Ministry of Commerce, Ministry of Agriculture and other related shows price increases every year, therefore, Government of Indonesia to make various and serious trade policy related to beef self-sufficiency such Program Acceleration Self-Sufficiency Beef (PPSDS 2011) and Self-sufficiency Program Beef (PSDS 2014) by Directorate General of Livestock, Ministry of Agriculture. In 2000, beef prices at around US \$ 3.26 and at the end of 2015, the price rose to US \$ 7.87 at the exchange rate prevailing during the year. In a period of 15 years, an increase of US \$ 4.61 and can't be denied in the coming 5 years beef prices will rise. Need special attention by government to realize program that is clearly associated with the national beef production and beef imports. Since this doesn't concern for domestic production but domestic consumption at a reasonable price. Clearly, there is a relationship between imports and domestic goods related to beef, whether the goods are complements or substitute, we need conclude that should Indonesia impor or keep on track their self-sufficiency program. So, the research problem in this research is to looking for the determinant of beef import in Indonesia.

### 1.3. Research Objective

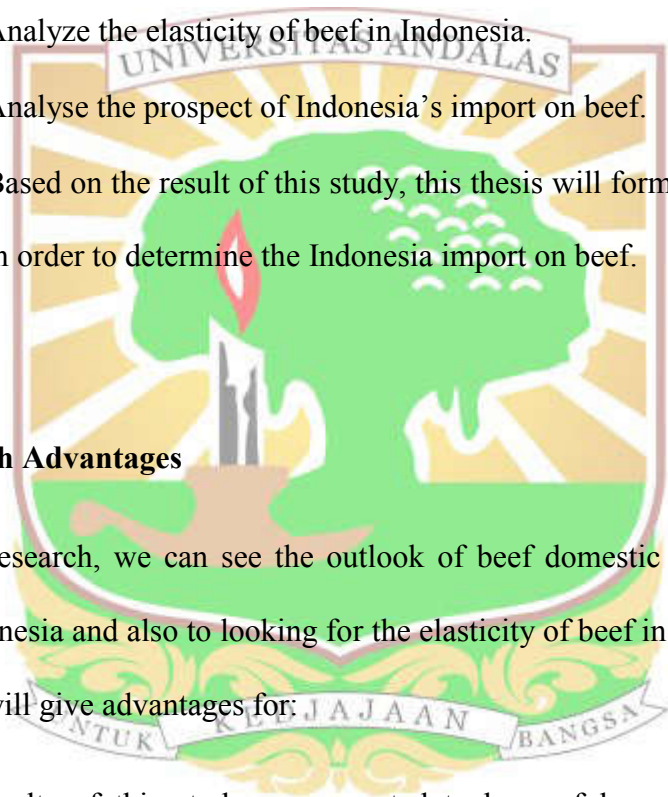
Based on the research problem, the writer wants to know what will be happens, then the basic purpose of this study is:

- Analyze the relationship between variables.
- Analyze the condition of production and import on beef in Indonesia.
- Analyze the elasticity of beef in Indonesia.
- Analyse the prospect of Indonesia's import on beef.
- Based on the result of this study, this thesis will formulate the policy in order to determine the Indonesia import on beef.

### 1.4. Research Advantages

In this research, we can see the outlook of beef domestic production and import in Indonesia and also to looking for the elasticity of beef in Indonesia, then this research will give advantages for:

1. The results of this study are expected to be useful as an input to the Central Government and Local Government in formulating policy development planning, especially in the field of import to determine trade policy in Indonesia
2. Promote the development and knowledge, particularly on elasticity and policy implications.





3. Improve the ability of research and writing scientific papers, so it can beneficial in developing themselves
4. Usable parties concerned to use the concepts and new ideas generated research development on beef.

### **1.5. Limitation of Study**

This research will be focus to analyse the domestic and import beef (price and quantity) in Indonesia with the factors that influenced it. First, the author will set the methodology and formula to solve the equation with Ordinary Least Square (OLS) and alternative model such as Error Correction Model (ECM), Autoregressive Distributed Lag (ARDL) to find the relationship among variables and Armington elasticity to find the level of elasticity of price that use statistical system/software and manual approach to process the data then the author will describe what will be happen to beef price elasticity and policy implication. Second, the author will answer with modeling approach, it will be explain with some output from data process. The data of this analysis will be sourced by Statistics Indonesia (BPS), Ministry of Commerce and Ministry of Agriculture, etc.

### **1.6. Hypothesis**

Based on the formulation of issues and empirical studies have been done before, the hypothesis to be tested in this study are :

1. There is positive relationship between among variables
2. There is high elasticity ( $\sigma > 1$ ) of beef price in Indonesia so, GOI must apply self sufficiency program (Domestic beef and import are substitute goods).
3. There is low elasticity ( $\sigma < 1$ ) of beef price in Indonesia so, GOI must consider import beef (Domestic beef and import are complement goods).

### 1.7. Systematic of Writing

Systematic writing use to give a description in this reserch, in systematically this research divide by six chapter, the arrangement of this research become :

Chapter I : Introduction

In chapter I, consist of seven part, that are background which give a description of the condition of Indonesian domestic and import outlook which have the correlation with this research, and what will be the formula that will used. And then, the goal of research, research objectives, hypothesis of research, the limitation of reserach and systematic writing.

Chapter II : Theoretical Framework

This chapter discuss about the theoretical framework and literature review which have a relation with domestic beef and import.

Chapter III : Research Methodology

This chapter describe about the model, that is OLS and other alternative such ECM and ARDL estimation that followed by Armington elasticity which transform of model and also data, source of data that will be used in this research.

Chapter IV : General Overview.

Chapter IV explain about the outlook and recent development of variables in Indonesi related to research data from 2000 until 2015.

Chapter V : Empirical Result and Analysis

This chapter explain about the output of the research and the analysis from the processed of data.

Chapter VI : Conclusion and Rekomendation

