

CHAPTER I

INTRODUCTION

1.1. Background

Indonesia is a country that excel in agriculture and already export some their commodities derived from the agricultural sector. The trade rise world economy, in which prices, or supply and demand, affect and are affected by global events. Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries. Almost every kind of product is available on the international market, for example, foods, clothes, spare parts, oil, jewelry, wine, and water. A product that is sold to global market is an export, and a product that is bought from the global market is an import. Import and exports are accounted for in a country's current account in the balance of payments.

In increasing the quantity of exports, Indonesia has always had a wide range of goods and services are built and developed with a variety of strategies. Some of the commodities that Indonesia has been export is likely rubber, cocoa, palm oil, coal, and coffee became a source of income and national reserve. One of plantation commodity which is potentially developed in Indonesia is cocoa, with the named Latin *Theobroma cacao* L, one of mainstay commodity plantation that has an important role in the national economy. Cocoa plantations experiencing rapid development in Indonesia so that the government became very serious in managing the cocoa plantations so that it can raise the volume of exports in the agricultural sector (ASKINDO, 2007).

Indonesia is the third largest exporter of cocoa bean after Ivory Coast (Pantai Gading) and Ghana. Based on the report of Food and Agriculture Organization (FAO, 2013), the total of Indonesia's cocoa production is 777.500 metric tons/ year, with the total area of the cocoa plant 1.774.303,97 hectares and the volume of export 414.092 ton, with a value of U.S. \$ 1.151.494.

Table 1.1

The Countries of Cocoa Beans Major Producers in 2013

Rank	Country	Area (ha)	Quantity (tons)	% (world production)
1	Ivory Coast	2.499.986.20	1.448.992	31.6
2	Ghana	1.600.203.03	835.466	18.2
3	Indonesia	1.774.303.97	777.500	17.0
4	Nigeria	1.200.130.80	367.000	8.0
5	Cameroon	670.077.97	275.000	6.0
6	Brazil	689.227.87	213.774	5.6
7	Ecuador	402.399.75	128.446	2.8
8	Mexico	116.992.44	82.000	1.8
9	Peru	97.660.54	28500	1.6
10	Dominican Rep.	150.956.50	68.021	1.5
11	Columbia	107.718.37	46.739	1.0
12	Papua New Guinea	134.993.45	41.200	0.9

Source : *Food and Agriculture Organization of The United Nations*

The top 5 cocoa exporting countries are Ivory Coast, Ghana, Indonesia, Nigeria, and Netherlands (FAOSTAT, 2011). In addition, the top 30 countries geographically are from all regions, namely Africa, Asia, Europe, and America. Whereas the top 5 cocoa importing countries mostly are from the north pole which are the Netherlands, United States, Germany, Malaysia, and Belgium. Moreover, the trend of cocoa export and import is fluctuation. The export quantity tends to increase in the following years because there is a significant growth from 2010-

2011 as much as 20%. In contrast, the volume of import was decreasing by 8.2% in the same period.

About 80% of the total production of cocoa beans in Indonesia used for export activities. One of the main destination countries exports cocoa beans is the United States. Most of the Indonesian cocoa production is exported to the United States to meet domestic demand. Indonesia has some of the commodity-producing regions cocoa beans. Area Indonesian cocoa producer which is the largest area of Sulawesi island that contributed as much as 70% of the total national production of cocoa beans. Of the total production of cocoa beans has, then the central government make the island of Sulawesi as Economic Corridor IV of the Indonesia Economic Corridor VI MP3EI (National Priority Research MP3EI, 2010: 216).

The United States is the country with a fairly high demand for cocoa seen from the level of consumption of the country. The level of demand for cocoa is high also because the United States is one of the country that has the largest cocoa processing industry in the world, Mars Inc. and mondelēz international Inc. so the demand for cocoa raw materials desperately needed the United States to meet the needs of manufacturing. The United States also became the main object of this study due to the prospect of US cocoa processing industry is much larger when compared to other countries because the United States is a developed country that its contribution to the international trade much higher. However, if we take a look at the development of cocoa exports from 2011 to 2014 tended to have decreased quite drastically when compared to the previous year. Therefore, total production, GDP, domestic prices, the price of competitor countries (Ivory Coast) and

exchange rates affect a country's export supply. Some countries are competitors in the activities of Indonesian cocoa exports to the United States can be seen in table 1.2.

Table 1.2
Exporting Countries of Cocoa Beans to the United States in 2015
(Million \$ / Metric Ton)

Year	Exporter Countries						
	Ivory Coast	Indonesia	Ghana	Papua New Guinea	Nigeria	Dominican Rep.	Ecuador
2005	529.6	135.2	21.8	16.7	48.7	21.8	46.5
2006	384.6	164	32.8	15.7	1.8	32.8	31.8
2007	360.1	83.3	31.9	36.9	7	31.9	60.6
2008	534	128.2	28.6	42.2	34.3	28.6	95.2
2009	499.4	297	99.5	38.6	42.5	99.5	172.5
2010	594	246.5	55,4	34.2	24.3	55.4	93.5
2011	741.2	29.7	55.2	23	55.9	55.2	234.9
2012	577.1	0.6	77.2	20.3	50.4	77.2	125.1
2013	660.6	16.4	53.6	15.8	21.2	53.6	166.9
2014	763.4	1.1	69.1	26.1	43.4	69.1	236.3

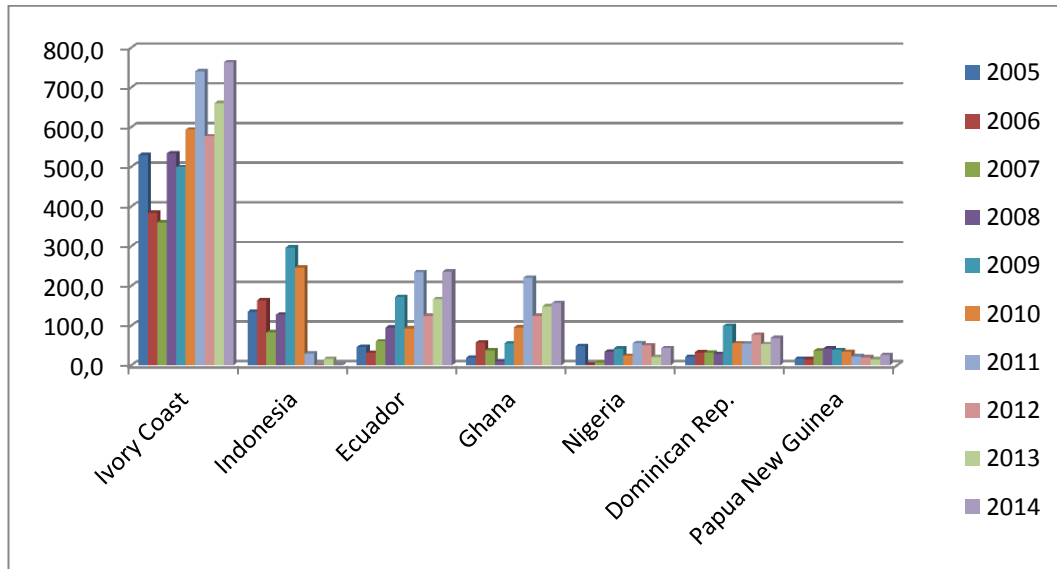
Source : *ITC Calculations Based On Comtrade Statistics*



Graph 1.1

Developments of Exporting Countries Cocoa Beans to the United States

(Million \$ / Metric Ton)



Source : *ITC Calculations Based On Comtrade Statistics*

In the table and graph above shows clearly that the main competitor countries of the activities of Indonesian cocoa exports to the United States are Ivory Coast. This is a clearly evident from the volume of Ivory Coast cocoa exports that enter the United States is the largest. Thus, the main competitor countries from Indonesia in the activities of Indonesian cocoa exports to the United States is Ivory Coast. If the price of cocoa beans from competing countries (Ivory Coast) is higher than the price of Indonesian cocoa beans will cause the United States tend to import cocoa beans from Indonesia. The cocoa beans produced a country of Ivory Coast has a higher quality of Indonesian cocoa beans produced. Differences in quality occur due to factors other than climate and weather in Ivory Coast are more supportive, before being exported through

Ivory Coast cocoa bean fermentation process, so that the flavors generated by Ivory Coast cocoa beans higher than Indonesian cocoa.

Based on the explanation above researchers is interested in to do research with title: **“The Analysis of Factors Influence Export of Indonesia Cocoa Beans to United States 2005-2014 Period”**.

1.2. Research Problem

In international trade, the price of cocoa beans Indonesia to the United States is very influential for Indonesian cocoa demand by the United States. It happens because if the price of Indonesian cocoa beans to the United States increases, it will caused the United States will reduce the demand for cocoa exports from Indonesia. So with the increase in the price of cocoa beans Indonesia, will cause a decrease in the number of requests of Indonesian cocoa exports by the United States. Theoretically, there is a demand in the theory of the law of demand said that in a state that *ceteris paribus*, if the price of goods increased resulting in the demand for goods to be down, and conversely (Walter Nicholzen, 1995). Related to this issue, one question of this research: is it the rising prices of cocoa beans Indonesia causes the demand of Indonesian cocoa exports by the United States declined.

Exchange rate (Rupiah on the US \$) also have a significant influence on Indonesian cocoa demand by the United States. This happens because the rupiah exchange rate against the US \$ also affects the price of cocoa beans Indonesia, is more expensive or cheaper. Appreciation of the Rupiah on the US \$ will result in the price of Indonesian cocoa beans to be expensive, so it will reduce the demand

for cocoa beans Indonesia by the United States, and vice versa if the value of the Rupiah on the US \$ depreciates, it will cause the price of Indonesian cocoa beans to be cheap, so it will lead to increased demand for cocoa beans Indonesia by the United States. Under these conditions, the question: is it the appreciation of the rupiah exchange rate on US \$ causes a decrease in demand for cocoa beans Indonesia by the United States.

Gross Domestic Product of the United States has an important influence the demand for cocoa beans Indonesia by the United States. According to Lipsey (Liana Veronika 2008), Gross Domestic Product is the value of the total production of goods and services a country expressed as national production and the total value of production has also been the total revenue the country concerned or in other words, equal to the national product National income. Thus the GDP is a reflection of the state of the economy of the country concerned. If the GDP of a country increasingly Great then shows the state of a country's economy is increasingly either to the accompaniment of the country's income increases. Thus, if there is an increase in the GDP of the United States, the more it will improve the ability of both countries in international trading activities. Increased GDP United States would theoretically cause an increase in demand for cocoa beans Indonesia by the United States. Thus, in this study, the question: is it the increase in the GDP of United States led to an increased demand for cocoa beans Indonesia by the United States.

The price of cocoa beans from competitor countries (Ivory Coast) is one of the main factors that influence the demand for cocoa beans Indonesia by the United States. If the price of cocoa beans competitor countries (Ivory Coast) is

higher than the others it will cause the United States to be more likely to shift demand to Indonesian cocoa. So will lead to increased demand for cocoa beans Indonesia by the United States. The price of cocoa beans from competing countries (Ivory Coast) provides for the substitution effect of Indonesian cocoa beans requested by the United States. So in this study need to be examined is it the increasing price of cocoa beans competitor countries (Ivory Coast) provide a positive influence on demand for cocoa beans Indonesia. And also on Indonesian cocoa production, Is increasing cocoa production in Indonesia will have a positive influence on the demand for cocoa beans Indonesia by the United States.

The main problems were taken in this study is there a mismatch between the theory is used as a reference to the practice or the real situation. Based on data obtained from the Central Bureau of Statistics of the Republic of Indonesia shows that the decrease of Indonesian cocoa exports to the United States from 2010 to 2014. The increase in the price of Indonesian cocoa beans to the United States and an increase in the GDP of United States does not give a boost to the increasing exports of commodities cocoa in Indonesia. Rupiah exchange rate against the US \$ which is a positive but not significant effect. Then, total cocoa production of Indonesia is relatively stable and tended to increase, but demand for Indonesian cocoa exports by the United States experienced a drastic decline when compared with the previous year. So that the problems need more study.

Based on the explanation above, the identification several research problems as follows:

- a. How the influence of exchange rate on the export volume of Indonesia cocoa beans to United States?

- b. How the influence of GDP of United States on the export volume of Indonesia cocoa beans to United States?
- c. How the influence of export prices of Indonesian cocoa on the export volume of Indonesia cocoa beans to United States?
- d. How the influence of price of cocoa beans from competitor countries (Ivory Coast) on the export volume of Indonesia cocoa beans to United States?
- e. How the influence of total production of Indonesia cocoa beans on the export volume of Indonesia cocoa beans to United States?

1.3. Research Objectives

Based on the background and the problems above, the purpose of this study is as follows :

- a. To analyze the effect of exchange rate rupiah on US \$ to the volume of demand for Indonesia cocoa beans to United States.
- b. To analyze the effect of United States GDP on to the volume of demand for Indonesia cocoa beans to United States.
- c. To analyze the effect of export prices of Indonesian cocoa on the volume of demand for Indonesia cocoa beans to United States.
- d. To analyze the effect price of cocoa beans from competitor countries (Ivory Coast) on the volume of demand for Indonesia cocoa beans to United States.
- e. To analyze the effect of total production of Indonesia cocoa beans on the volume of demand for Indonesia cocoa beans to United States.

1.4. Research Advantages

Based on the research problems and research objectives above, then this research is expected will give advantages for:

a. Government obtain an overview of Indonesia's cacao export prospects to the export destination countries, in this research the case is export cocoa Indonesian to EU.

b. Producer

Provide information about the prospects for Indonesia cocoa, so that companies can take a policy for future.

c. Next Researcher

Provide an overview of Indonesia export commodities especially those Indonesian cocoa and encourage the next researcher to research in more detail.

1.5. Limitations of Study

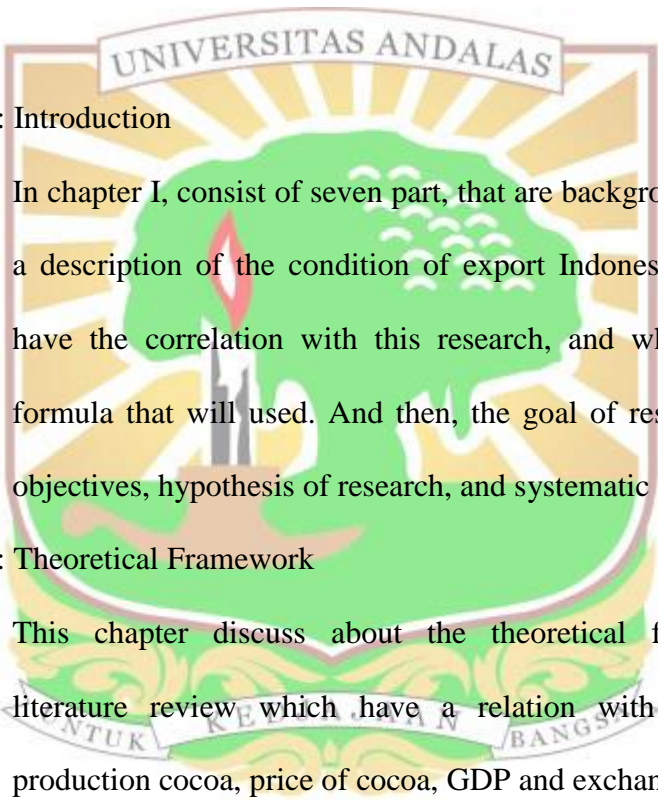
This research will be focus to analyze of factor influencing export of Indonesia cocoa beans to united states. First, the author will set the methodology and formula to solve the equation with Ordinary Least Square (OLS), then the author will describe what will be happen to export Indonesia cocoa beans to United States. Second, the author will answer with descriptive approach, it will be explain with some output from data process. The data obtained by means of reviews references by reading and studying books, articles, journals, and also from the Directorate General of Estate (Department of Agriculture), Ministry of Industry, the International Cacao Organization (ICCO), Central Statistics Agency

(BPS), Bank Indonesia (BI), Food Agricultural Organization (FAO), Ministry of Trade Republic of Indonesia, and others legal institutions organization.

1.6. Systematic of Writing

Systematic writing use to give a description in this research, 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 export Indonesia cocoa 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, and systematic writing.

Chapter II : Theoretical Framework

This chapter discuss about the theoretical framework and literature review which have a relation with export cocoa, production cocoa, price of cocoa, GDP and exchange rate.

Chapter III : Research Methodology

This chapter describe about the model, that is Ordinary Least Square (OLS) model, the 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 analysis of factor influencing export of Indonesia cocoa beans to United States period 2005Q1-2014Q4.

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 Recommendation

