

CHAPTER I

INTRODUCTION

1.1 Background

Indonesia is an agrarian country as they rely on agriculture product for both livelihood and increasing economic growth. International trade is trade that carried residents of a country (between individuals, between individuals and the government of a country or the government of a country to another country) to people in other countries on the basis of mutual agreement. Internatioanal trade is a relationship between economic activity of state that is realized by the exchange of goods and services on a voluntary basis and mutual benefit (Krugman and Obstfeld, 2014). Indonesia is a country that has long been doing international trade. The increase in exports, as well as a good number of the type of goods or services, is always attempted or encouraged by a variety of strategies including the development of exports, especially exports of non oil and gas, either the goods or services. The purpose of this export development program is to support the efforts of increasing global competitiveness as well as Indonesia products increase the role of exports in economic growth.

Indonesia one of the countries that supply oil and non oil in the world market. No less than 140 countries choose indonesia as the export destinations. From the statistical data released by the Central Bureau of Statistics, nearly 5.000 kinds of products from Indonesia are entered into the market of countries (Ministry of trade,

2014). International trade deals is an important part in import and export activity side in this research, we will focus on discussing export activity.

Table 1.1
Indonesia Total Export of Oil, Gas and Non Oil (2011-2016)

Describe	Year (million USD)					
	2011	2012	2013	2014	2015	2016
Oil and gas	40701,5	42564,2	45266,4	43459,9	24613,2	23568,8
Non oil & gas	136734	149125,3	141362,3	134718,9	118126,4	116925,9
Total Export	177436	191689,5	186628,7	178178,8	142739,6	140494,7

Source: Central Bureau Of Statistics (Processed)

On the table 1.1 shows the total export in the period 2011-2016, the highest export value is set in the year 2012 as much US\$191.689,5 but after that decreasing happens until the lowest point in the year 2015 as much US \$142.739 .60. Although in the year 2016 Indonesia's total exports decreased, the contribution of the non oil and gas exports is greater which is above the range of u. S \$100.000 million. The development of non oil and gas exports is very important in an effort of increasing the State revenue that give impact on the development of the national economy. Since that time, the export of non oil and gas being the main focus in increasing the economic growth. These things, which makes the Government increase export non oil and gas Indonesia in order to add recipients of foreign countries.

Some of the products that lead the commodities in Indonesia still dominated by primary products namely results of plantations. Commodity spices has strategic role in the national economy as a foreign exchange earner, income generation

farmers, provision of employment, development and conservation of natural areas. The current focus of development has been done against the 5 primary commodities (crude palm oil, rubber, coffee, tea, and pepper). The following is a table of the growth of primary plantations commodity in Indonesia:

Table 1.2
The Primary Commodity Plantations In Indonesia (2010-2015)

No	Commodity	Primary Commodity Export Volume Estate (thousand ton)					
		2010	2011	2012	2013	2014	2015
1	Rubber	2351,9	2556,2	2444,5	2701,7	2703,3	2740,5
2	Crude palm oil	11158	10428	7262,8	6584,7	6245,4	6638,5
3	Coffee	433,6	346,5	448,6	534,0	691,1	698,8
4	Tea	87,1	75,4	70,1	70,8	71,2	73,2
5	Pepper	62,6	36,5	62,6	47,7	45,4	51,6

Source: Central Bureau Of Statistics

On the table 1.2 commodity coffee has the lowest growth in 2011 as much 346.5 ton, and the highest in the year 2015 of 698.8 ton. Indonesia is a country subtropical primary commodity for the development potential of plantations. Coffee is one of the mainstay export commodities which has a role as a foreign exchange earner, coffee is a global commodities its value is high in the economy. It is one of the most popular drinks in the world.

Indonesia is one of the largest coffee producers in the world. According to the International Coffee Organization (ICO), Indonesia is ranked as the forth world coffee producers with a total value of production of the year 2016 amount to 12.340

60/Kg, in Indonesia the production of coffee is divided two types Robusta coffee as much 80% and Arabica coffee as much 20% (ICO, 2014).

Table 1.3
The State of Largest Coffee Producer in The World (2012-2016)

No	Country	Total of production (in 60 Kg/bags)					
		2011	2012	2013	2014	2015	2016
1	Brazil	50.245	54.060	53.900	51.870	50.600	53.910
2	Vietnam	28.980	24.809	29.870	29.200	29.580	28.600
3	Colombia	9.870	10.090	12.808	13.430	13.560	13.765
4	Indonesia	10.650	11.340	12.050	13.150	13.170	12.340
5	Ethiopia	7.650	7.890	7.908	7.980	7.989	7.965

Source: International Coffee Organization, 2017

Coffee also has an important role in the provision of employment, sources of income, and the country's foreign exchange resources. According to Nugroho (2013), as a provider of employment, coffee plantations are able to provide jobs for 2 million coffee farmers Indonesia or about 1.7 percent of the total labor force in the year 2011.

Indonesia's coffee production is largely geared to meet the needs the overseas markets such as the US, Japan, and European countries. This is due to the low of domestic consumption, i.e. only around 0.5 – 0.6 kg per capita every year. Coffee in consumer countries import most exported processed back in shape. It makes coffee as a commodity that is not only important for manufacturers but also for the consumer.

Table 1.4
The Biggest Countries Of Coffee Consumer in The World (2015)

No	Country	Total Consumption in The World
1	European union	27.3%
2	USA	16.3%
3	Brazil	13.2%
4	Japan	5.0%
5	Indonesia	2.9%

Source: International Coffee Organization, 2015

Based on observation the consumption coffee in the world in table 1.4 Indonesia has own included in five countries of the largest coffee consumer . Coffee drinks are part of the culture in Indonesia. Therefore, Indonesia could become the biggest coffee consumer. Furthermore, Indonesian people lifestyle that adopt the urban enlarge market opportunities of coffee globally. According to the ICO, during the period 2010 -2016, an average growth of coffee consumption increased 5% per year on Indonesia society.

The countries of Asia, America and Europe are the very countries the potential for the coffee export in Indonesian. Based on data from the Indonesia Coffee Exporters Association, early 90 percent of Indonesia's coffee export markets are in three areas. This is a prospect which is pretty bright for Indonesia to improve the foreign exchange the country from an export of coffee in three regions. It is the largest exporter of coffee to Japan can be said that the current dependency needs of Japan to Indonesia's coffee is so large, so by understanding what factors that affect

the exports of Indonesia's coffee to Japan, then this will be able to represent the entire problem of Indonesia's coffee exports. This research tries to look at factors that affect coffee exports Indonesia to Japan. Based on the background, researchers are motivated to do research entitled "The Analysis of That Influence Indonesian Coffee Exports To Japan".

1.2 Research Problem

Indonesia is a potential subtropical areas development for primary plantations commodity. The one of primary commodities the main plantation Indonesia namely coffee. Coffee is one of the commodities which maintain stay role as producer of foreign exchange derived from coffee plantations, subsector commodities global high economic value and one of the most popular drink's ingredients in the world. Request of a coffee export from Indonesia to the various countries are quite fluctuated. One of the countries which import the largest from coffee in Indonesia is Japan. Considering Japan as the largest coffee consumer in the world, it is the potential market for Indonesia. Therefore, necessary that research can prove the influence of those factors against Indonesia's coffee exports to Japan.

Based on the description above, the problem will be examined in this analysis are:

- 1) How is variables that affect on volume of Indonesian coffee exports to Japan during the period of 1985-2017?

1.3 Research Objectives

Based on the problem above, we can formulate the objective of this research is to:

- 1) Describes of the variables which affect volume of Indonesian coffee exports to Japan during the period of 1985-2017.

1.4 Research Advantages

This study result will over several advantages to several users:

- 1) As an additional materials and complementary to previously existing researches.
- 2) As a supplementary study materials and literature for students of the Faculty of Economics of Andalas University, especially for students of in Economics Department.
- 3) As references materials and information for further research, as well as to increase of knowledge for the writers.
- 4) As an input for the benefit of the government or related institutions.

1.5 Limitation Of the Study

The main topic of this research is the factor that influences the coffee export competitiveness from Indonesia to Japan. An influential variable in this study was the volume of Indonesia's coffee to Japan, Indonesia, coffee production, international coffee prices, the domestic coffee prices and GDP of Japan. Research using time series data from 1985 - 2017. The method use in this research is Error Correction Model (ECM).

1.6 Writing Systematic

The study consists of 6 chapters from the introduction to the conclusion and recommendation. The complete lists of this research are as follows:

Chapter 1: Introduction

In this chapter includes the background of research why choose this topic, the main problem, the main objective, research advantage, and research hypothesis in this study.

Chapter 2: Theoretical Framework and Review Literature

This chapter includes the answer of hypothesis with reference and review that connect with independent and dependent variable theory.

Chapter 3: Research Methodology

This chapter tells about research methods, operational definition of the variables study, collection all data, source of data, method and data analysis method.

Chapter 4: General Overview

This chapter describes the trend that happened in each variable include the volume of Indonesian coffee exports to Japan, the production of coffee, coffee consumption of Domestic, international coffee prices and GDP of Japan.

Chapter 5: Research Finding

This chapter consists of the outline result, discussion of description in object research, data analysis and description.

Chapter 6: Conclusion and Recommendation.

