

CHAPTER I

INTRODUCTION

1.1. Background

From basic concept of international trade, it can be seen that the higher economic growth of a country, the higher the needs of society. Trade is the basis of the economic life of every country including Indonesia. Basically, each country has difference need, it causes dependence on other parties because of unfulfilled supply by resources. The difference of taste, income level, technological progress as a form of trade pattern causes the level of production and consumption in the country depend on the other party. From this dependence, there is a trade (export-import) as an effort to meet the needs. International trade will also be an interstate competition as well as a means to proving the efficiency of the country's products and businesses.

Today Indonesia has a long-term trade to fulfill the national basic needs of salt commodities. Demographically Indonesia as cited from Ministry of Marine Affairs and Fisheries Republic of Indonesia (2017) is an archipelago consisting of 17.506 islands. Indonesia has the fourth longest coastline in the world with length reaching more than 95.181 kilometers. The territorial sea area is about 285.005 km, marine area of the Exclusive Economic Zone (ZEE) of 2.692.762 kilometers, water area is 2.012.392 kilometers, and land area is 2.012.402 kilometers. Thus, the total area of Indonesian waters is 5.877.879 kilometers. It should be with the coastal area and the abundant waters of Indonesia have the potential to produce salt with a large amount and able to meet domestic needs. Then, Indonesia has not been able to fulfill the needs of domestic salt, both consumption needs and

industrial needs. Indonesian taste for salt far outstrips the inventory of local producers, with the country consuming an average of 3.3 million tons of salt per year, almost twice the amount produced by local suppliers.

Especially for salt commodities, a very deep understanding of production and consumption conditions salt in Indonesia and the problems faced is very necessary and crucial for policymakers in particular and society in general to address the development of the salting sector in Indonesia. The national salt needs consist of the overall needs of salt consumption and industrial salt demand in Indonesia. Based on the latest official publication of national salt balance in 2016, the national salt requirement during 2010 to 2015 continues to increase both in terms of salt consumption and industrial salt. Total salt demand touched 3.0 million tons in 2010 and continues to increase the average demand by 4.3% per year to 3.75 million tons in 2015. The increase in demand is influenced by a significant increase in industrial salt demand, which is an average increase of 6.8% per year during 2010-2015.

On the salt demand side, consumption of salt is dominated by household sector with quite an aggressive amount despite occur fluctuating consumption demand every year. The demand for salt consumption for marinating rise sharply 13.7% per year during 2010-2015, contributing more than 50% of the national salt requirement in 2015.

Table 1.1
Indonesia's National Salt Balance, 2010-2015 (In Ton)

No.	Description	Year						Trend (%)
		2010	2011	2012	2013	2014	2015	2010-2015
1	The Total Needs	3.003.550	3.228.750	3.270.086	3.573.954	3.532.719	3.750.284	4,29
2	Salt for Consumption	1.200.800	1.426.000	1.466.336	1.546.454	1.281.494	1.303.095	0,40
3	a. Household	720.000	747.000	732.645	746.454	756.494	647.595	(-1,34)
4	b. Various Food Industry	165.800	269.000	282.000	300.000	*)	*)	-
5	c. Fish Salting Industry	315.000	410.000	451.691	500.000	525.000	655.500	13,74
6	Salt for Industry	1.802.750	1.802.750	1.803.750	2.027.500	2.251.225	2.447.189	6,83
7	a. CAP Industry and Pharmacy	1.600.000	1.600.000	1.601.000	1.822.500	1.604.500	1.797.618	2,08
8	b. Non CAP Industry (Petroleum, Leather, Textile, Soap)	202.750	202.750	202.750	205.000	200.000	140.000	(-5,23)
9	c. Various Food Industry	-	-	-	-	446.725	509.571	-
10	Salt for Production	30.600	1.113.118	2.071.601	1.087.715	2.190.000	2.840.000	98,74
11	PT GARAM (Persero)	4.497	156.713	307.348	156.829	315.000	345.000	93,60
12	b. People Salt	26.103	956.405	1.764.253	930.886	1.875.000	2.495.000	99,54

*Various Food Salt is categorized into industrial salt since 2014 based on *Permenperin no. 88/M-IND/PER/10/2014* on the amendment to *Permenperin no. 134/M-IND/PER/10/2009* concerning to The Roadmap Development of Salt Industry Cluster. The total needs and production data used in this calculation from the Central Bureau of Statistic. (Source: Ministry of Marine Affairs and Fisheries (2016).

Based on this salt balance, it can be seen that industrial salt use is dominated by CAP (Chlor Alkaline Plan) and Pharmaceutical industries, which reach 73.5% of the total industrial salt requirement in 2015. In addition, the demand for salt for CAP and Pharmaceutical industry has increased 2.1% per year. The high demand for salt is triggered by the national food industry. The demand for national salt is very high and continues to increase, so Indonesia will still not be free to import of salt. This is because local salt production still has not

been able to fulfill the needs of the industry both in quantity and quality, although the number has increased during 2010-2015 in Table 1.1, but along with the increasing in the need for salt, an increasing in imported salt occurs.

Through the salt self-sufficiency program during 2010-2015, national salt production increased significantly by an average of 98.7% per year. By 2015, national salt production reached 2.84 million tons, comprising 2.5 million tons of salt production by domestic people, which is used to meet consumption salt needs, and the rest for industrial salt. However, salt for production especially industrial salt, is still cannot fulfill national needs so that Indonesia is still importing salt.



Source: Compiled from UN Comtrade (2018)

Based on the data, the highest salt imports in 2011 were due to the fact that in 2010 domestic production was unable to meet the demand for salt. So the government opens import taps through the Coordinating Ministry of Economic Affairs meeting in accordance with the Decree of the Coordinating Minister for Economic Affairs number *KEP-11 / M.EKON / 03/2011* on the coordinating team self-sufficiency of salt.

In 2016, Indonesia's total imports increased 15% from 2015, which was 1.86 million tons to 2.14 million tons. Although the quantity of import annually fluctuate the value described is quite large. Viewed in more detail in 2015, Indonesia's total salt demand is 3.7 tons while domestic salt is only able to meet the needs of 2.84 million tons. However, the magnitude of governmental attention given to the salt sector does not mean that national production of salt is free from problems and obstacles. Although the average growth of domestic production is increasing, this number cannot achieve all domestic needs, causing the need for salt imports.

The phenomenon of Indonesia's imported salt cannot be separated from the source countries of Import because of the dynamics of certain relations of these countries. Indonesia has a cooperative relationship with import source countries since 2006 until now with Australia. However, Australia's dominance as the holder of Indonesia's salt market share has begun to face competition from other salt producers. Since Indonesia officially became a member of the World Trade Agreement (WTO), Indonesia's demand for salt to Australia continues to decline and began to engage other countries as a source of Indonesian salt imports.

In order to prevent the deterioration of its worsening market share, Australia and New Zealand initiated the establishment of Free Trade Agreement (FTA) with ASEAN, called the ASEAN-Australia-New Zealand Free Trade Agreement. This initiation resulted in the Regulation of Minister of Finance Republic Indonesia in 2013 with the main objective of reducing import tariff for some commodities including salt by 5 percent. The decline in tariff has an impact on the share of Australian and New Zealand exports which in 2013 increased the share of Australian and New Zealand exports (Trademap, 2015)

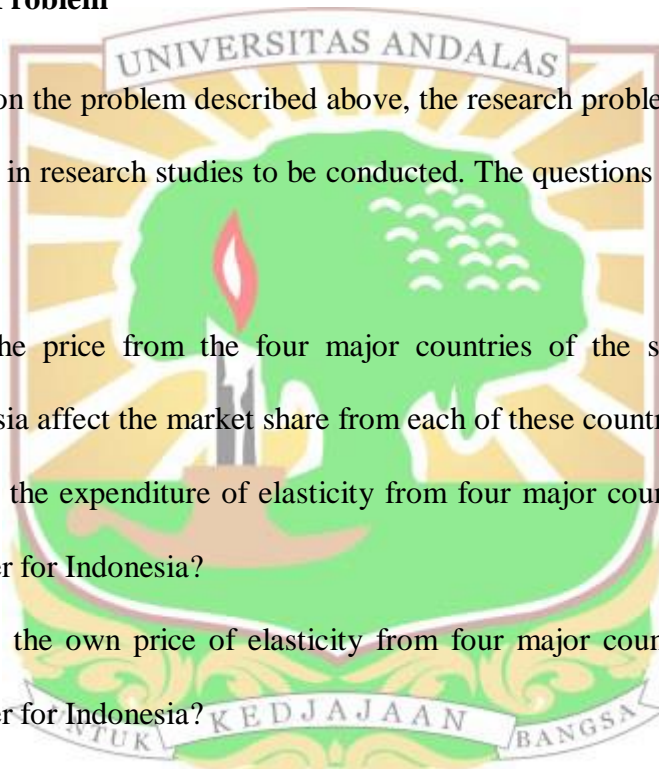
Based on this salt import dilemma it can explain another side, that Indonesia's salt problem is not only focused on increasing domestic production but also must pay attention to the dependence of Indonesia domestic demand on the share of import source country salt in Indonesia. The competition issue also reflects domestic producers will confront the challenge to other countries with various advantages both in terms of price and quality. Competition will ultimately cause local salt prices to fall as well as the tendency to prioritize imported salt as an effort to meet domestic salt needs. The policy of imported salt applied by Indonesia at this time certainly, have a long-term impact on Indonesian food sovereignty. The large number of Indonesian salt demand that cannot be able to filled by domestic production, in the end, cause dependence on imported salt. This is exacerbated if the dependence is not just on how much the volume of imported salt but more specifically on the specific dependence of the salt of a particular source country of import. Therefore, competition in the import of salt import can be a research issue (Solomon & Nazemzadah, 2004).

A deep understanding of the conditions of salt trade both domestically and internationally and how future salt prospects are also important, especially for policymakers in order to improve Indonesia's salt competitiveness in global markets. So, based on the problem above the author is interesting in analyzing a research with title: **Utilizing Almost Ideal Demand System to Analyze the Competition among Four Major Countries of Salt Exporter for Indonesia.**

1.2 Research Problem

Based on the problem described above, the research problem which can be used as a basis in research studies to be conducted. The questions being addressed are:

- a. Does the price from the four major countries of the salt exporter for Indonesia affect the market share from each of these countries?
- b. How is the expenditure of elasticity from four major countries of the salt exporter for Indonesia?
- c. How is the own price of elasticity from four major countries of the salt exporter for Indonesia?
- d. How is the cross price of elasticity from four major countries of the salt exporter for Indonesia?



1.3 Research Objective

In accordance with the background of the problem that has been described previously, the purposes of this research are:

- a. To prove that price setting from the four major countries of the salt exporter for Indonesia significantly affect the market share from each of these countries.
- b. To analyze expenditure of elasticity four major countries of salt exporter for Indonesia, and its impact to the local industry.
- c. To analyze own price of elasticity four major countries of salt exporter for Indonesia, and its impact to the local industry.
- d. To analyze cross price of elasticity four major countries of salt exporter for Indonesia, and its impact to the local industry.

1.4 Research Advantages

The outcomes of this research are as follows:

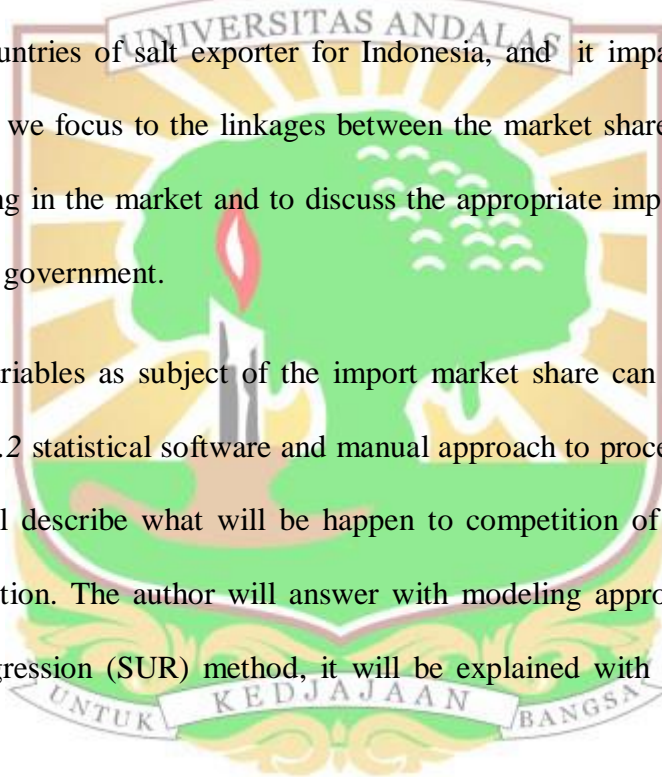
- a. The results of this study are expected to benefit both the government and the community. For the government, this study provides an overview of the state of the salt economy especially competition among four major countries of salt exporter for Indonesia, so for the next can be taken into consideration in conducting a policy in the future. The research can be useful as an input to the Central Government and Local Government in.
- b. Formulating policy development planning, especially in the field of import to determine trade policy in Indonesia.

- c. For the writer, this research is useful to add understanding about the salt market that affects the Indonesian Economy, where the topic of salt is quite interesting because it is one of the strategic food commodities. In addition, this study also is expected to be useful as a reference further research.

1.5 Limitation of Study

The research will be focus to analyze the rate of competitiveness among four major countries of salt exporter for Indonesia, and it impacts to the local industry. Also we focus to the linkages between the market share of import with the price setting in the market and to discuss the appropriate implementation that must be set by government.

The variables as subject of the import market share can be expected by using *Stata 14.2* statistical software and manual approach to process the data then the author will describe what will be happen to competition of salt export and policy implication. The author will answer with modeling approach; Seemingly Unrelated Regression (SUR) method, it will be explained with some output by data process.



1.6 Systematic of Writing

Systematic writing use to give a description in this research, in systematically this research divide by six chapters, the arrangement of this research becomes:

Chapter I: Introduction

In chapter I, consist of six parts, 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,, the limitation of research and systematic writing.

Chapter II: Theoretical Framework

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

Chapter III: Research Methodology

This chapter explains about research methods and therotical framework thathas relation with the variabels,operational definition of the variables study, collect all data, source of data, method and data analysis method.

Chapter IV: Empirical Result and Analysis

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

Chapter V: Conclusion and Recommendation.

This chapter consists of conclusion of the analysis carried out, suggestion, and implication arising from the conclusion.