Chapter I
INTRODUCTION

1.1. Background

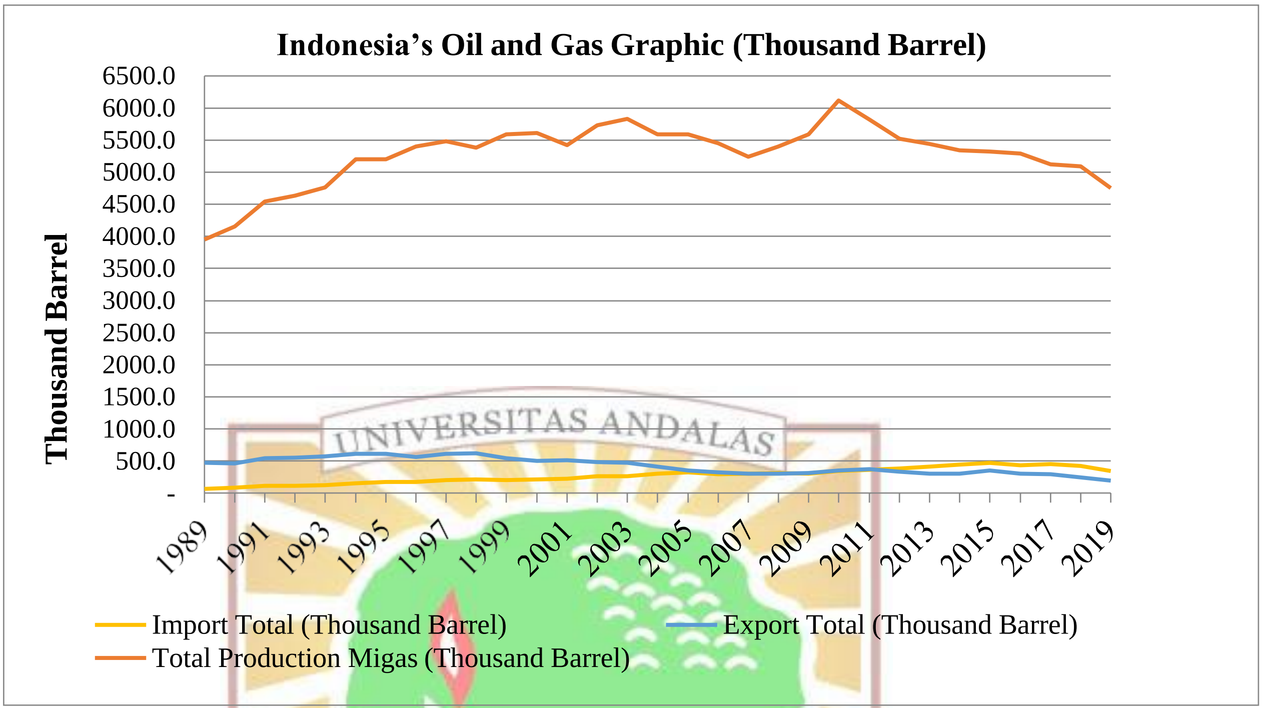
International trade has a major impact on a country's economy. International trade activities, such as exports and imports, especially for countries with open economies. Import is one of the government policies in foreign trade and finance. One of the reasons for the implementation of the import policy is the disparity between the amount of production and the amount of public demand. (Salvatore, 2013)

Imports are very diverse in Indonesia, ranging from sectors that meet the needs of the community to the need for raw materials for the production of goods. Commodities imported by Indonesia are usually used as industrial raw materials in the form of staples such as rice, corn and sugar, such as imports of metals, oil and gas, etc. Imports are carried out by Indonesia which aims to meet domestic consumption.

Oil and natural gas are hydrocarbon complexes classified of crude oil and natural gas that are scientifically formed in the crust. Apart from being used as fuel oil and lubricants, petroleum is also used in various industries such as the manufacture of solvents, soap, detergents, plastics, steel, explosives and others, while natural gas itself can be used as an electrical power generator, vehicle fuel (NVG), cooking fuel, steel production, petrochemical industry and others. Indonesia's oil and gas imports show a relatively high trend and decline every year. Due to high domestic fuel consumption, the high import value of the energy sector is driven more by an increase in imports of petroleum, particularly petroleum products. Meanwhile, the capacity of domestic oil refineries and oil and gas production is still not able to meet domestic fuel needs. For more details, graph 1.1 shows the development of the total volume of oil and gas imports in the form of thousand barrels and domestic oil and gas production from 1989 to 2019.

Graph 1.1

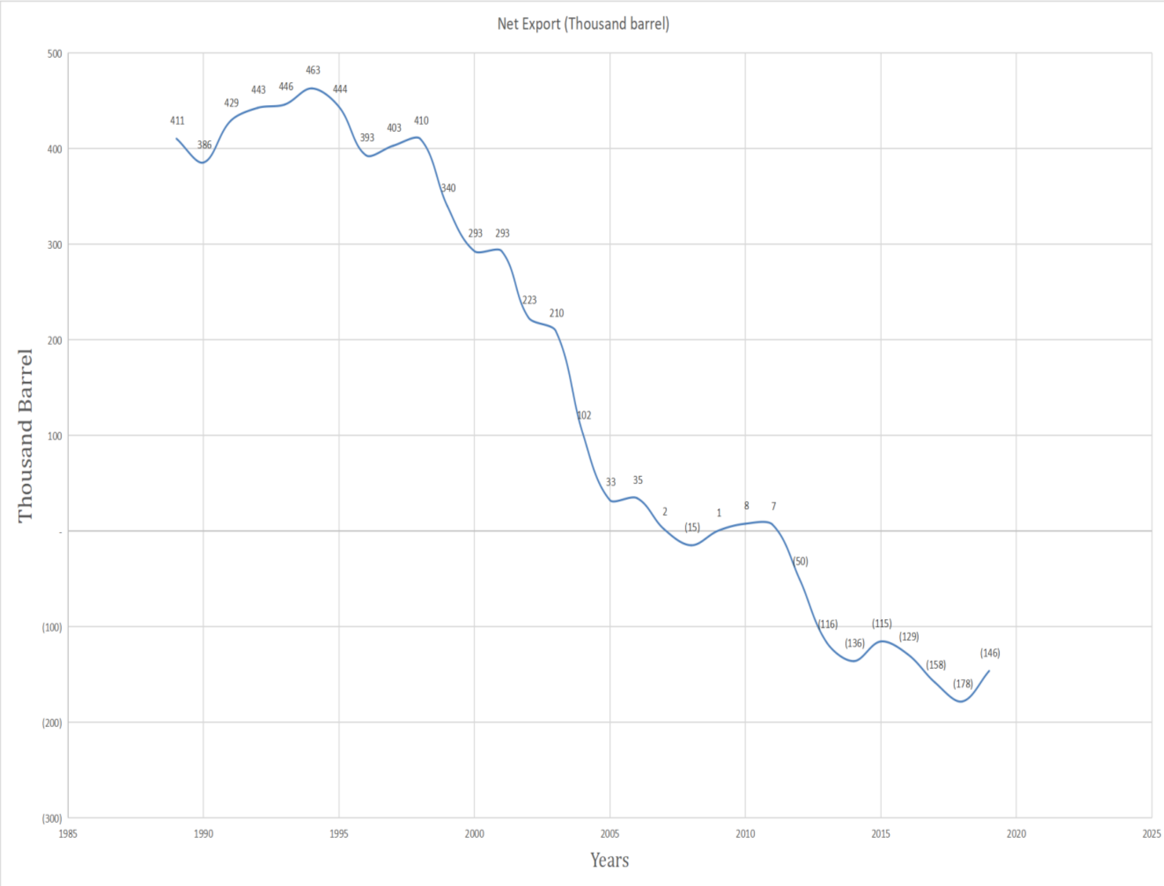
Total Production and total Export and Import of Indonesia’s Oil and Gas 1989-2019



Source: <u>www.BPS.go.id and www.bp.com</u>

From 1989 to 2019, oil and gas production in Indonesia increased and decreased, as shown in the graph above. Indonesia had its highest oil and gas output in 2010, with a total of 6117 thousand barrels, and its lowest oil and gas production in 1989, with a total of 3948 thousand barrels. Meanwhile, oil and gas exports and imports in Indonesia have remained stable since 1989, but there has been a decrease in oil and gas exports from 1999 to 2019, and Indonesia has seen a rise in oil and gas imports rather than exports from 2012 to 2019. To illustrate, the graphic 1.2 below shows the overall gap between Indonesian exports and imports of oil and gas during 1989 until 2019.

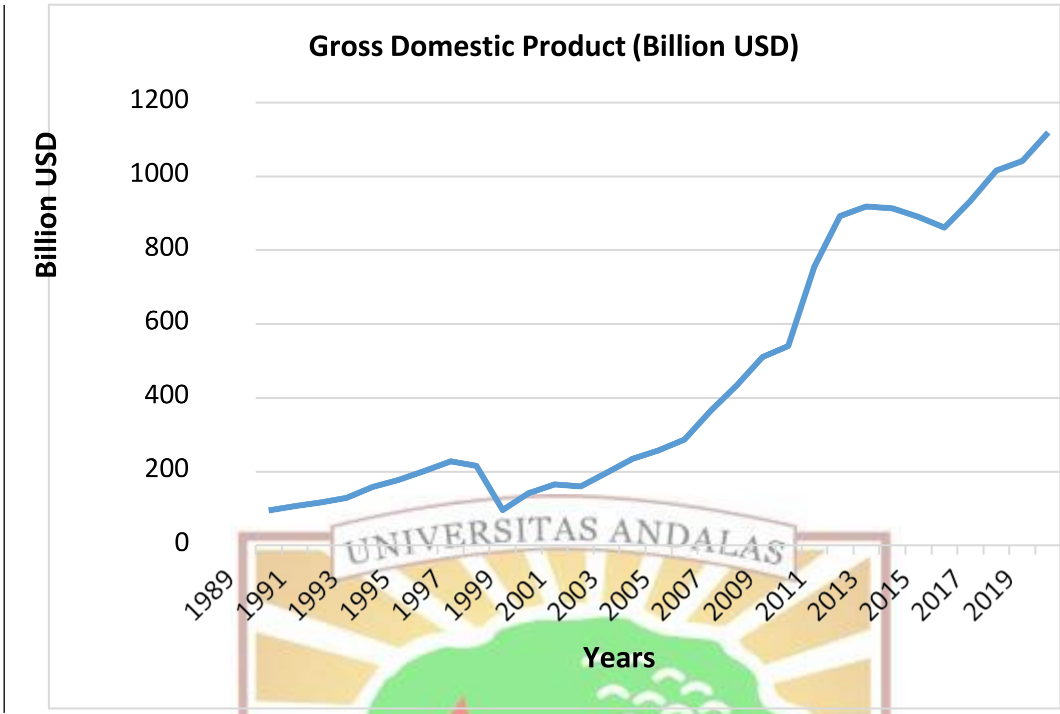
Graph 1.2 Indonesia’s Net Export 1989-2019



The graph above shows the final result of net exports of Indonesian oil and gas based on the calculation of Indonesia's total oil and gas exports minus Indonesia's total imports of oil and gas which results in Indonesia's net oil and gas exports. From this graph it can be seen that Indonesia experienced a significant decline in oil and gas exports in 1999 after the riots in 1998, where it can be seen that the comparison of the value of exports and imports of oil and gas in Indonesia from a total of 410 in 1998 fell to 340 in 1999 until it continued to decline until 2005. From 2006 to 2019 there was also a significant weakening of Indonesia's oil and gas exports although in several years they experienced an insignificant increase. The decline in Indonesia's net export chart can be attributed to the tragedy in May 1998 and along with the high domestic demand for oil and gas due to the increasing use of motorized vehicles accompanied by the lack of oil and gas refineries in Indonesia to support domestic needs so that Indonesia is more inclined to importing oil and gas from abroad. Imports are also affected by GDP since the level of demand for imports is determined by the amount of income required by the country to import the materials required to meet local needs. Imports are typically made when a country's production of a certain item is insufficient. Aside from the output deficit, the high demand for imports is heavily influenced by socio-political events and conditions, inflation rates, defense and security, foreign exchange rates, and the quantity of domestic income generated by income-generating industries. in addition to international trade

Growth of economic is the progress of economic activities in a country's when producing goods and services, as well as a long-term process that occurs in line with the increasing in the potential output of an economy. In the long term, activities of economic moves towards the level of its potential output. Therefore, economic growth plays a role in increasing (Parkin:2012). Economic growth can be measured by the increase in production and income, in other words the increase in national income is indicated by the value of the Gross Domestic Product. Mankiw (2009) in the book macroeconomics 6th edition states, Gross domestic of product is used as the best reference measure in the system of economic performance. There are two ways to look at statistics. The first is to look at GDP as the total income of people in the economy. Another way of looking at GDP is as the total expenditure on the economy's goods and services results. Graph 1.3 shows the development of gross domestic product (GDP) from 1989 to 2019.

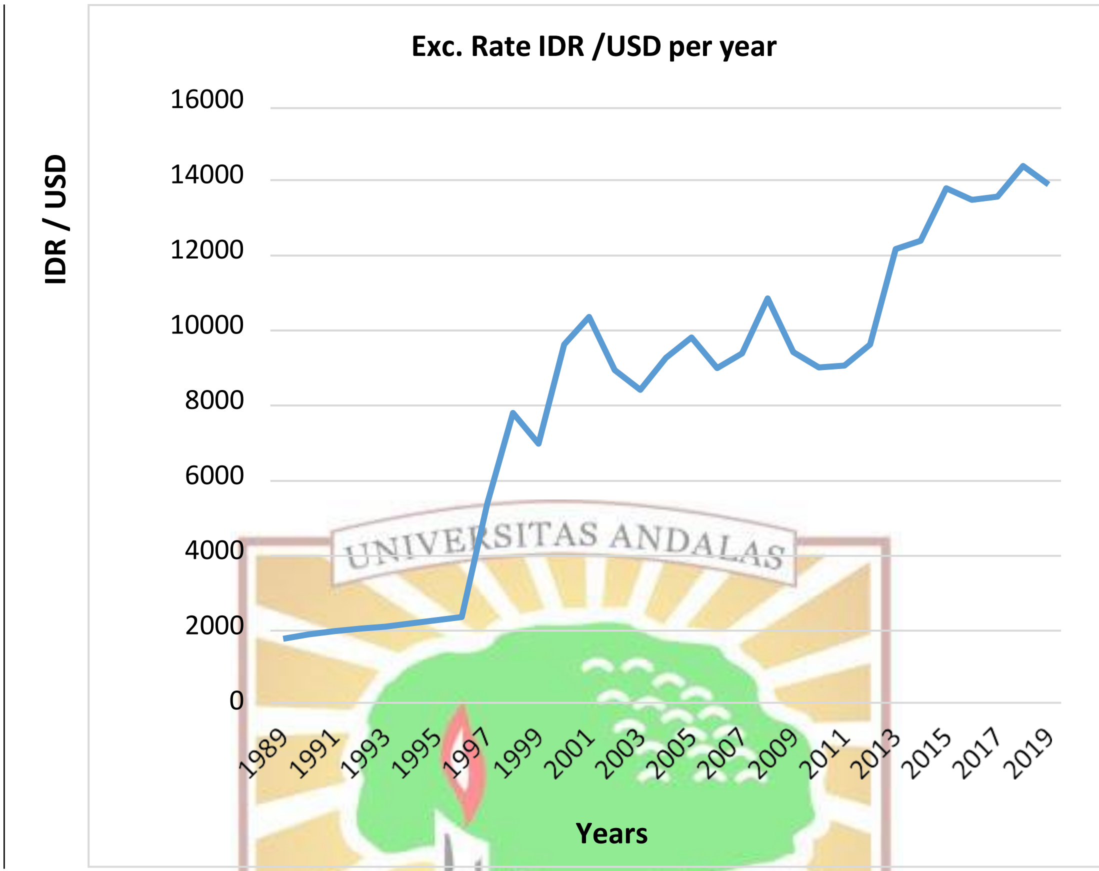
Graph 1.3 Indonesia's Gross Domestic Product 1989-2019



Source: World Bank

Actually with the case of GDP, the rate of exchange will affect the quantity of GDP in order to satisfy imports, because, of course, when importing transactions on the international market, the currency applied internationally is used. In international trade, the United States dollar exchange rate is very commonly used. A relatively stable international currency value is the dollar exchange rate and is determined by Bank Indonesia as the middle rate. Table 1.4 shows the development ofExchange rate from 1989 to 2019.

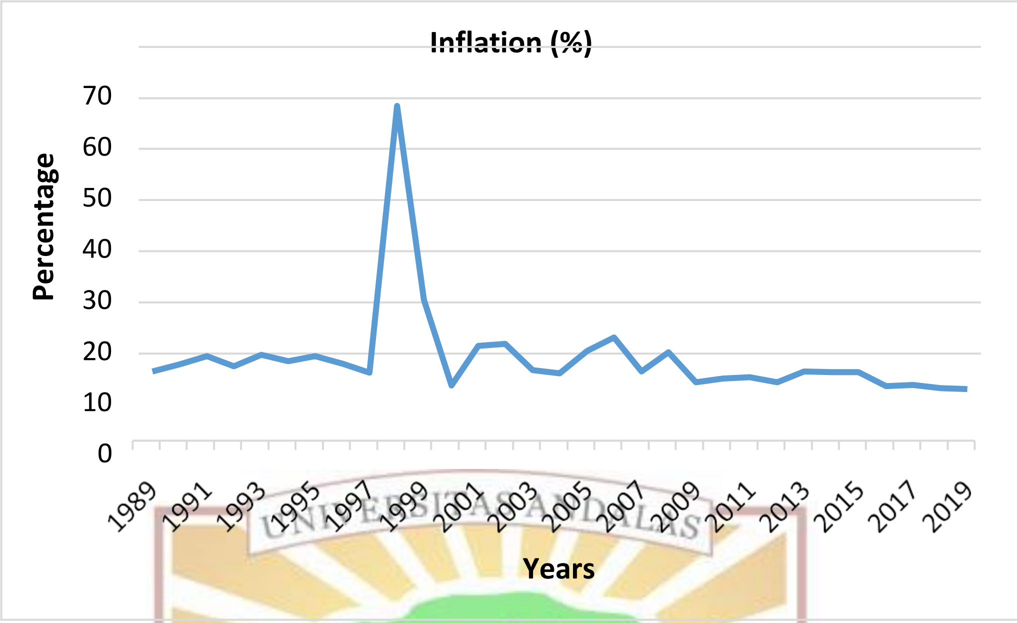
Graph 1.4 Exchange Rate of Indonesia's Rupiah on USD 1989-2019



Source: Bank BNI Divisi Treasuri - Jakarta

Import activity is greatly affected by the inflation exchange rate because if inflation occurs in a country, it is high, so international market prices will become costly because import transactions use foreign exchanges that are used on the international market. Actually, the Inflation has a great affects to international trade activities. One of the determinants of the inflation rate is the growth in the money supply (Mankiw., 2009: 90). Inflation is an indicator of economic stability where high levels of inflation will not promote economic development. Inflation or rising prices have an adverse effect on trade. Table 1.5 shows the development of Inflation Rate from 1989 to 2019.

Graph 1.5 Indonesia's Inflation Rate 1989-2019



Source:www.Macrotrends.net

From the data above, the writer are interested in choosing this study because Indonesia is a user and producer in sector of oil and gas and this sector plays an important role in fulfilling all sectors in Indonesia and Indonesia, including former oil and gas exporters. However, after several years, Indonesia became an importer of oil and gas from abroad because Indonesia began to be completely unable to produce and process oil and gas resources to meet domestic needs. Therefore, the authors are fascinated with conducting study with the title **"Determinants of Indonesian Net Exports of Oil and Gas (1989-2009)."**

1.2. Problem statement

Based on the explanation in background, what will be focused on in this study is:

1. How does the Gross Domestic Product affect the Net Export of Oil and Gas in Indonesia during 1989-2019

2. How does the Exchange rate affect the Net Export Oil and Gas in Indonesia during 1989-2019

3. How does the Inflation affect the Net Export of Oil and Gas in Indonesia during 1989-2019

1.3. General Research Objective

1. Determine the effect of Gross Domestic Product on the Net Export of Oil and Gas in Indonesia during 1989-2019

2. Determine the effect of Exchange rate on the Net Export of Oil and Gas in Indonesia during 1989-2019

3. Determine the effect of Inflation on the Net Export of Oil and Gas in Indonesia during 1989-2019