

CHAPTER I

INTRODUCTION

A. Background

International trade plays an important role for the economy of every country in the world. This is driven by the increasing interdependence between one country and another in the economic, political, social and cultural fields (Hady, 2001). At the present time, almost every country cannot ignore the importance of economic interactions with other nations. This is due to the increasing number and variety of community needs that cannot be met by domestic production. The production capacity of various domestic commodities has limitations in increasing the number and types of goods or services produced. Conditions like these are what encourage foreign trade activities in the form of goods and services between countries.

For developing countries, especially Indonesia, the source of financing in the form of foreign exchange comes from export activities which hold very important role in national development. One of the government's efforts to obtain foreign exchange from abroad is by exporting products of natural resources. Therefore, from the earnings of this foreign exchange can be used to increase domestic development funds (Huda, 2006)

As what have been written, it is known that every human being need items that somehow must be obtained from others within an easy way. However, not all owners are willing to give those items freely. In Islam, the existence of law in selling and buying is a way to fulfill the desire without having make mistakes. This is in accordance with the Qur'an surah Al-Fathir: 29, as follows:

يَرْجُونَ تِجْرَةً لَّان تَبُورَ

Meaning:

Verily, those who recite the Book of Allah (this Qur'an), and perform As-Salat (Iqamat-as-Salat), and spend (in charity) out of what We have provided for them, secretly and openly, hope for a (sure) trade-gain that will never perish.

With regard to the verse above, it is obvious that each country has difference in various ways. One of them is the difference in the resources produced, both natural and human resources. This difference leads to international trade. This is of course driven by the increasing number and variety of community needs that cannot be fulfilled by domestic production. These conditions have led to international trade activities. In other words, international trade is the exchange of goods and services that occur between different countries (Joseph Eby Ruin, 2008)

For both developed and developing countries, international trade plays an important role in increasing the country's foreign exchange. This additional foreign exchange is needed for its national development. Therefore, in order to reach the goal, under government's control a country export its resources to other countries. So that the results obtained from these activities can bring the domestic economy forward.

As an archipelagic country, Indonesia clearly has a lot of natural wealth that could be potential for the export sector. One of them is in agriculture and plantations. Out of the many commodities owned by Indonesia, Crude Palm Oil (CPO) is one with promising

results. CPO comes from palm oil extraction. Usually CPO is used as a food raw material such as vegetable oil or cooking oil.

Table 1.1 Contribution of Non-Oil and Gas Sector to Foreign Exchange Reserves
(in thousand tons)

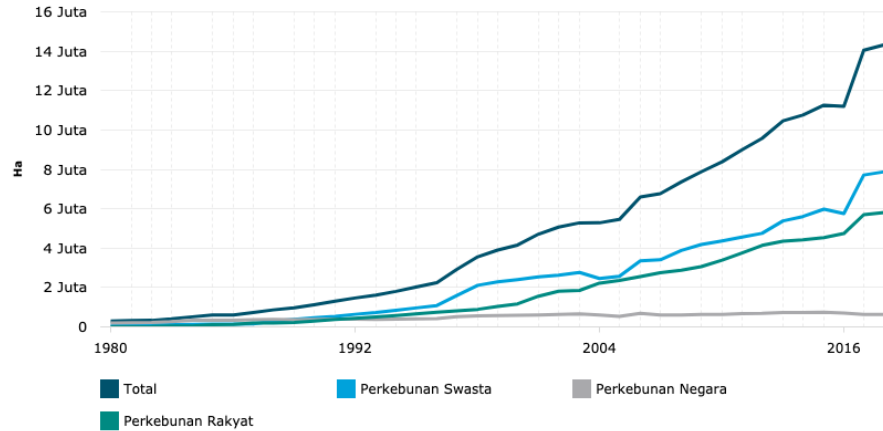
No.	Commodity	2015	2016	2017	2018	2019
1	Rubber (<i>Karet</i>)	2 568,60	2 754,70	3 050,20	3 111,30	2 951,10
2	CPO (<i>Minyak Sawit</i>)	10 527,80	11 575,60	13 191,20	15 296,80	16 223,50
3	Coconut (<i>Kelapa</i>)	2 888,00	2 872,10	2 821,30	2 807,90	2 795,80
4	Tea (<i>Teh</i>)	49,50	47,70	48,70	50,20	49,30
5	Coffee (<i>Kopi</i>)	602,40	632,00	685,80	727,90	731,60
6	Cocoa (<i>Kakao</i>)	562,30	629,80	558,80	751,70	768,80
7	Cashewnut (<i>Jambu Mete</i>)	137,50	137,00	135,50	147,60	134,10
8	Pepper (<i>Lada</i>)	81,50	82,80	84,50	84,60	85,30
9	Clove (<i>Cengkeh</i>)	137,70	137,60	111,30	129,10	132,80
10	<i>Pala</i>	33,60	33,20	32,80	44,10	43,90

Source: *Direktorat Jenderal Perkebunan*

From the table above, it can be seen that the palm oil industry give the largest contribution of revenue to the country compared to other industries. In 2019, the export value of CPO reached 16,223.5 thousand tons. This vivid prospects of CPO commodity in world's vegetable oil trade encourages the government to spur the development of palm oil plantation areas.

As of 2018, the total area of oil palm plantations in Indonesia is 14.68 million hectares. This number is an increase of more than 4,000 times compared to 1980 which

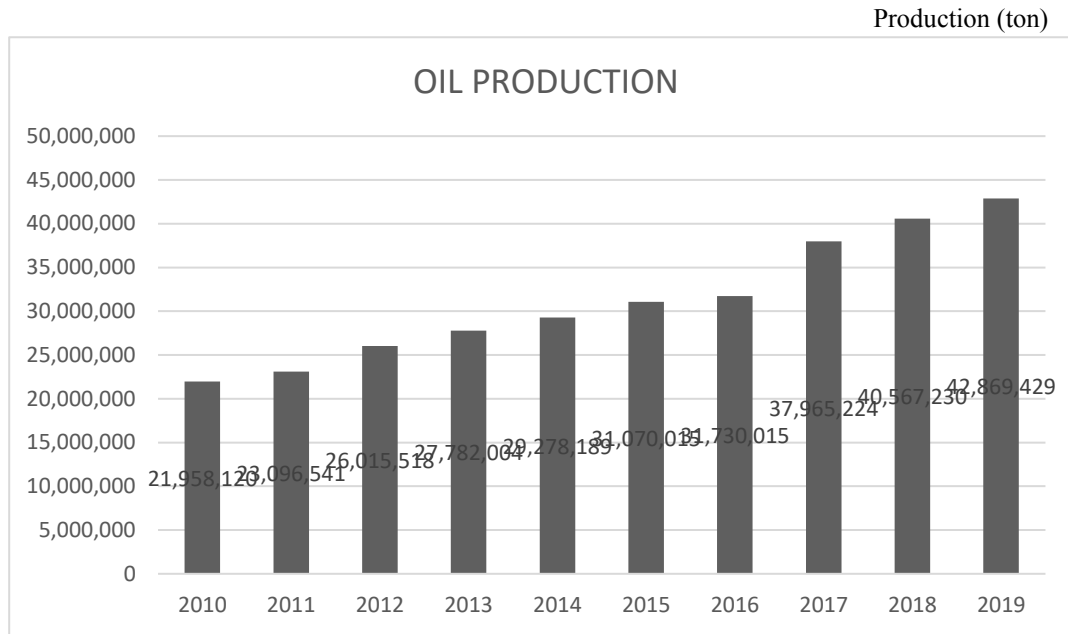
was only 295 thousand hectares. Smallholder farmers' oil palm plantations grew the fastest, namely more than 94.02% during the period 1980-2019 or an average of 2.41% per year with the largest area of oil palm land in Sumatra. The area of oil palm land in Sumatra reaches 8.3 million hectares or more than half of Indonesia's total oil palm land.



Source: *Direktorat Jenderal Perkebunan*, 2018

Figure 1.1 Oil Palm Plantation Area According to Ownership
Year of 1980-2018

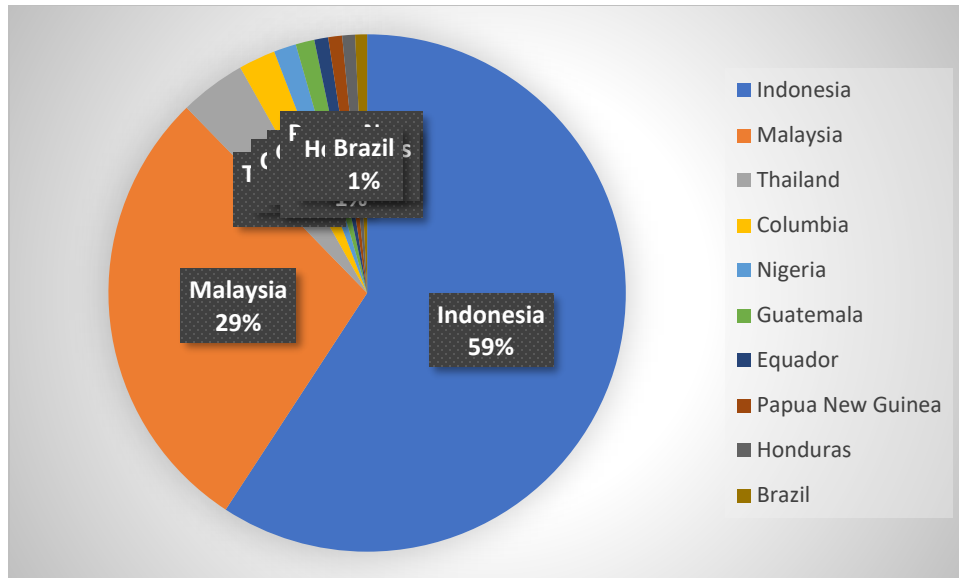
Along with the increasing area of oil palm plantations, the amount of CPO in Indonesia has also drastically increased. During the last 10 years there has been an increase in the amount of CPO production by 20.91 million tons, from 21.95 million tons in 2010 to 42.86 million tons in 2019. Figure 1.3 shows the development of palm oil production in Indonesia from 2010-2019.



Source: *Direktorat Jenderal Perkebunan*

Figure 1.2 Crude Palm Oil Production Year of 2010-2019

With total production of more than 40 million tons per year, Indonesia is the largest palm oil producing country in the world with a percentage of 59 percent of total world production. This exceeds Malaysia which sits in second place with a total production of 29 percent. Figure 1.4 shows the data on the development of the world's palm oil producing countries in 2019.



Source: United States Department of Agriculture, 2019

Figure 1.3 Crude Palm Oil Producing Countries in 2019

While the half of Indonesia's palm oil production is marketed domestically, the other half of it is exported abroad. And goes along with the increasing amount of CPO production, the quantity of palm oil exported in the last 10 years has also increased. In 2010 the total volume of CPO exports was 16.2 million tons, then increased to 24 million tons in 2019. Table 1.5 shows *table data* on the development of Indonesia's CPO exports in 2010-2019.3

Table 1.2 Indonesia's Crude Palm Oil Export Year of 2010-2019

Year	Volume
2010	16,281.8
2011	16,436.2
2012	18,845.0
2013	20,577.9
2014	22,969.7
2015	27,670.8
2016	24,066.5
2017	28,770.3
2018	29,302.4
2019	29,547.9

Source: *Badan Pusat Statistik*

The development of Indonesia's Crude Palm Oil (CPO) export is influenced by several things. One of them is the price of CPO itself, both in the domestic and foreign markets. Relatively low prices compared to its competitors, such as soybean oil, sun seed oil, groundnut oil, cotton oil and rapeseed oil are the main factors boosting the increase in demand for CPO. (Abidin, 2008). The table below shows the global price of Crude Palm Oil and Soybean Oil from 2009 until 2019.

Table 1.3 Global Price of Crude Palm Oil and Soybean Oil from the year of 2009 until 2019

	Crude Palm Oil	Soybean Oil
2009	433,65	853,07
2010	556,36	1000,9
2011	664,16	1297,7
2012	658,35	1225,67
2013	685,86	1055,4
2014	652,19	905,97
2015	340,62	755,63
2016	303,03	815
2017	355,6	850,4
2018	456,61	789,2
2019	398,93	764,76

Source: worldbank, processed with excel

Another variable that influence the development of CPO exports is the exchange rate. Changes in exchange rates may shift the relative price of a commodity to be more expensive or less expensive. Therefore the exchange rate is sometimes used as a means of increasing competitiveness a driving force for exports. It is this change in export position which then improve the position of the trade balance.

Based on the description above, the researcher wants to analyze the factors that influence Crude Palm Oil (CPO) exports in Indonesia. The researcher wants to raise the title "**Determinant Factors Affecting Indonesian Crude Palm Oil (CPO) Export to Five Destination Countries Year of 2014-2019; Error Correction Model Approach**"

B. Limitation of Problems

1. The limitation of the problem in the research that the author will do includes the Export Factors of Indonesian Palm Oil with an Error Correction Model analysis.
2. In this study, the variables used in the research model are the export volume of Indonesia's crude palm oil as the dependent variable (Y), while the independent variables are production number of Crude Palm Oil Indonesia (X1), rupiah exchange rate against US Dollar (X2), International Crude Palm Oil Price (X3), Global Economic Growth (X4), *Term of Trade* Indonesia (X5), International Soybean Oil Price (X6).

C. Problem Formulations

1. How does production number of CPO affect the export of Indonesian CPO in the short-run and long-run?

2. How does the rupiah exchange rate against US Dollar affect the export of Indonesian CPO in the short-run and long-run?
3. How does international price of CPO affect the export of Indonesian CPO in the short-run and long-run?
4. How does the Global Economic Growth affect the export of Indonesian CPO in the short-run and long-run?
5. How does Term of Trade Indonesia affect the export of Indonesian CPO in the short-run and long-run?
6. How does the price of International Soybean Oil Price affect the export of Indonesian CPO in the short-run and long-run?

D. Purpose of the Research

1. To analyze the effect of production number on Indonesian CPO export in the short-run and long-run.
2. To analyze the effect of rupiah exchange rate against US Dollar on Indonesian CPO export the short-run and long-run.
3. To measure the effect of International CPO price on Indonesian CPO export the short-run and long-run.
4. To analyze the effect of Global Economic Growth on Indonesian CPO export the short-run and long-run.
5. To analyze the effect of Term of Trade Indonesia on Indonesian CPO export the short-run and long-run.

6. To measure the effect of International Soybean Oil price on Indonesian CPO export the short-run and long-run.

E. Benefit of the Research

1. For the Government

As input for the government and related parties in determining strategies and making decisions in order to develop one of Indonesia's mainstay export commodities: Crude Palm Oil.

2. For the Readers

The results of this study are expected to help readers to get information about Indonesia's CPO exports, as well as being a reference for other researchers in the future, especially regarding Indonesia's CPO exports.

3. For the Writer

This research is needed by the writer in order to increase knowledge and views, as well as a means to implement the knowledge that has been obtained during her study at the International Program of Economics and Finance.