# CHAPTER I

## INTRODUCTION

### 1.1 Object Overview

A long the year of 2017, our export value reached US$ 168,73 billion. This number growth 16,21% compared to what we achieved in 2016. But if its calculated over the past five years the numbers actually decreased by 7,5% (Nugroho, 2018).While the export performance carried out by the Ministry of Trade has not yet obtained maximum value.

Indonesia export industry also still very depend on raw material commodities, in example of fat products, vegetable oil, and mineral fuel. Both of the products contributing up to 26% of the total export. The dependency on non-oil and gas commodities is not able to push the export performance which is supported by the Indonesian Trade Promotion Center or the ITPC (Nugroho, 2018). ITPC itself is an institution formed by the ministry of trading. According to (Aditya, 2018) This problem provoked by the anger of President Jokowi that he threatened to close the ITPC if the results of ITPC were not satisfactory.

Since 1987 Indonesian exports began to be dominated by non-oil commodities such as exports of 10 classes of goods, namely vegetable fats and oils, mineral fuels, machinery or electrical equipment, rubber and articles of rubber, machinery or mechanical aircraft. (Bakampung, 2013).

**Table 1.1 Export of Non-Oil and Gas**

| Export of Non-Oil and Gas | |
|---|---|
| Year | Value: Million US$ |
| 2013 | 149.918,8 |
| 2014 | 145.961,2 |
| 2015 | 131.791,9 |
| 2016 | 132.080,8 |
| 2017 | 153.083,9 |
| TREND (%) 2013-2017 | -0,58 |

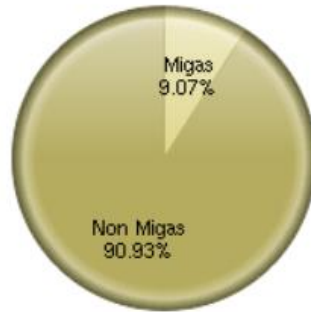Source:kemendag.go.id (Processed by author)

**Figure 1.1 Indonesia export and based on Sector**

Source: kemenperin.go.id (retrieved November 11<sup>th</sup> 2018)

Almost in every year from the year 2013 until 2017 export on non-oil and gas having a bad value of trend to closed on -0,58%, even though the trend on exporting of non-oil and gas has shown a bad trend but in Indonesia export of non-oil gas dominated 90,3% of the export market. Non-oil and gas exports with the highest trend occur in raw iron and steel commodities with a total trend of 45,19% and non-oil exports with the smallest trend occurring in commodities from product that made from iron and steel with a total trend reaching -15.58%.

Based on Prasetyo, Macroeconomics describes the factors that may affect companies and society. It can analyze some government targets, such as economic growth, price stability or inflation rate, investment, employment and government balance sheet performance (Kartikasari, 2017, p. 663)

In Indonesia export and import has been increase over years, and Non-Oil and Gas are the biggest contributor in the sector compared to the oil and gas commodities. With the availability of the international trade the Indonesia economic wheel experience an escalation. The escalation of Indonesia economic wheel happened when the Indonesia doing a trade using a foreign currency. Between 2013 until 2017 there is a fluctuation on market demand both in the domestic market and in the international market, lead to a significant change for the businessman on the market.

According to (Rappler, 2017) in the year of 2017 there is an escalation against the amount of export in the market demand, this escalation was shown by a positive performance. In this period the non-oil and gas export to India, China, and The Netherlands significantly increase with the growth of 61,0%, 59,5%, and 39,6% (YoY) respectively.

The minister of trade Enggartiasto Lukita said that "The performance of non-oil and gas exports in the period from January to May 2017 is far better than the performance of non-oil and gas exports in the last five years (January-May 2012-2016) which always grows negatively," and in that period the balance of trade having a value almost twice as much from the same periods on 2016 in the amount of US$ 5,9 billion dollar on January to May 2017 (Rappler, 2017).

That surplus come from the surplus trade of non-oil and gas sector with a value of US$ 9,7 billion-dollar minus by the deficit of trade on oil and gas in the amount of US$ 3,8 Billion dollar.

On May 2017, the balance of trade on non-oil and gas having a surplus with a value of US$ 1 billion dollar, meanwhile the balance of trade in the oil and gas sector shown a deficit with a value of US$ 0,5 billion dollar with the surplus of the non-oil and gas sector and the deficit of oil and gas sector causing a surplus on the balance of trade in the amount of US$ 0,5 billion dollar (Rappler, 2017).

India, USA, Philippine, Netherlands, and Pakistan are the trading partner that contribute the largest non-oil and gas trade surplus from January to May 2017, which reached US$ 12.6 billion. While China, Thailand, Australia, South Korea, and Argentina are trade partners which cause the biggest deficit, which reaches US $ 9.7 billion (Rappler, 2017).

## 1.2 Research Background

Governor of Bank Indonesia (BI) Agus Martowardojo stated that over the past five years, the rupiah exchange rate and inflation were relatively well maintained. Although at the beginning of the task, the economy was quite difficult (Quddus, 2018). Since May until August 2013 the flow of foreign capital has continued to emerge resulting in weakening of exchange rates and financial markets in developing countries including Indonesia. In terms of the rupiah exchange rate, Agus noted, in the last five years BI managed to maintain volatility in the rupiah exchange rate below 12%. In this case, exchange rates reserves are still in a fairly good condition. (Wirayani & Purnomo, 2018)

Exchange rates markets are influenced by a combination of macroeconomic and microeconomic variables. The market microstructure within which they operate, macroeconomic fundamentals, and policies affect the decisions micro market agents make (Goyal, 2015). The combination on macroeconomic and microeconomic policies driven by of high demand in the global market, and it is as a trigger of the wheel economics especially in Indonesia could growth over.

Exchange rates it's one of the main factors in International trading activity, the volatility of exchange rates can also beneficial to some corporate or even individual, it happens when a country has a demand and supplier to balance the economic growth. The impact of exchange rate changes on international trade has long been the concern of economists, analysts and policymakers (Safuan, 2017). In Indonesia itself the peak of the lowest US Dollar (USD) against Indonesia Dollar Rupiah (IDR) range from January 2013 to December 2017 happen on September 28th 2017 at reached of 14779 and the bottom of the strength US Dollar (USD) against Indonesia Dollar Rupiah (IDR) range from January 2013 to December 2017 happen on January 14th 2013 stop at point 9617.

**Figure 1.2 Indonesia Exchange rate Fluctuation**

Beside that the fluctuation of exchange rates can measure the economics of a country based on how high the export and import is. This issue must be considered by any investor or any industry players who does export and import activity. The volatility and uncertainty of exchange rate movements after the breakdown of the Bretton-Woods agreement led policy makers and researchers to investigate the impact of exchange rate fluctuations on the volume of trade (Yuksel, 2012). The volume of trade itself has increase in the market demand of trading partners countries of Indonesia.

Export and import have big role for the trade balance, (Wiryanti, 2015) said the correlation between export and import for trade balance and balance of payments are highly correlated each other. Between 2013 and 2017 international demand toward export of non-oil and gas commodity has fluctuate over the market, Over the past eight years Indonesia's trade balance has always been in a deficit, ranging between US $ 7 billion and US $ 12 billion. However, the deficit experienced a downward trend as the strengthening of service exports from US $ 16 billion in 2010 to US $ 24 billion in 2017 (Hidayatullah, 2019).

The bigger trading partners of export and import on Indonesia will improve the wheel of economic too, based on Todaro & Smith Economic development can be defined as a capacity from an economy that is the initial conditions were not good and static in a period of time that long enough to create and maintain the increase of Gross Domestic product (GDP) (Ginting, 2017).

Based on neo-classical theory of exogenous economic growth explain that the role of exports has no influence on economic growth This is happen because according to neo-classical

theory states that economic growth is only influenced by factors production inputs such as capital and labor and technological improvements (Solow, 1956). For Further the post neo-classical theory of endogenous economic growth which explains that international trade in both exports and imports has a positive influence on output and both types of capital grow at the same constant rate (Romer, 1986)

Salvator said on (Ginting, 2017) that exports are one of the driving machines economic growth and The study done by Salvator shows that export is one the main factor for developing countries were able to increase economic growth. Increased exports and investments made by developing countries can push output and economic growth (Ginting, 2017).
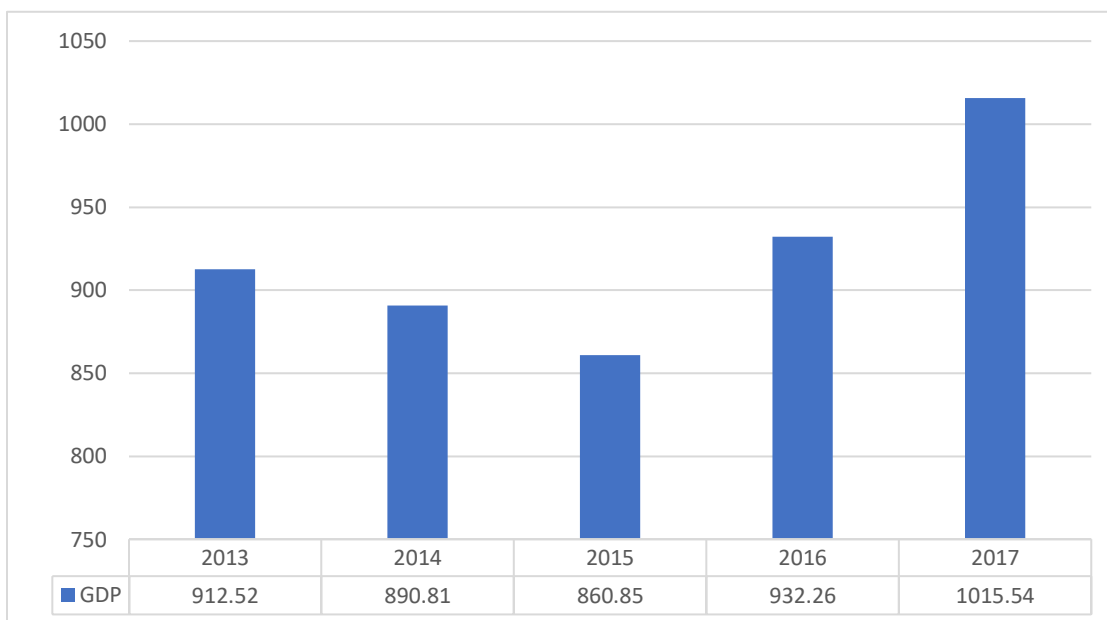


| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| GDP | 912.52 | 890.81 | 860.85 | 932.26 | 1015.54 |

**Figure 1.3 Indonesia GDP**

Source: https://id.tradingeconomics.com/indonesia/gdp (Processes by author)

Indonesia National Gross Domestic Product (GDP) over 5 years back has a fluctuate condition, the strongest position shown on the figure 1.3 it's in 2017 with the scale of GDP 1.1015,54 trillion USD. When the real exchange rate is high, the relative price of goods at home is higher than the relative price of goods abroad. In this case, import is likely because foreign goods are cheaper, in real terms, than domestic goods. Thus, when the real exchange rate is high, net exports decrease as imports rise (Noble, 2019).

According to previous research of Safuan result shows that the exchange rate volatility has negative impact on exports. Estimations based on disaggregate data indicates that the impact of

the exchange rate volatility on exports remains negative (Safuan, 2017). It is having a same result with the previous research of Kartikasari that said "this research shows a negative but insignificant relation between export and economic growth which is supported both by empirical evidence and the theory of the paradox of plenty that states that a country can sometimes focus too heavily on exporting only one lucrative export that is not a value-added export and thus neglects the rest of its economy" (Kartikasari, 2017).

But it is a different result by (McKenzie & Brooks, 1997) that conclude of export has a positive correlation to exchange rates volatility. This is also supported by (Kasman & Kasman, 2005) who in the research found a positive result that conduct exchange rate uncertainty to export in Turkey.

Based on previous research, author conclude that the main point under this research is **"The Effect of Exchange Rate, Exchange Rates volatility and Export Price Index on Exports in Indonesia from 2013 to 2017 (Case Study on non-oil and gas commodity)".**

**1.3 Problem Statement**

Based on the research background exchange rates affect the national economic growth. In another hand, export activities also can affect the national economic growth. During 2013 until 2017 export activity has shown that the highest value of international trade activity is export on non-oil and gas. Therefore, Author conduct research to examine the relationship between Indonesia real exchange rate, Indonesia exchange rates volatility, export price index (EPI) is affecting of export non-oil and gas by commodity.

**1.4 Research Question**

1.  How is the condition of Indonesia Exchange rate, Exchange rate volatility, Export price index and export of non-oil and gas by commodity during 2013 – 2017?
2.  Is there any significant impact of Indonesia exchange rate toward export of non-oil and gas by commodity during 2013 – 2017?
3.  Is there any significant impact of Indonesia exchange rate volatility toward export of non-oil and gas by commodity during 2013 – 2017?
4.  Is there any significant impact of export price index (EPI) toward export of non-oil and gas by commodity during 2013 – 2017?
5.  Are there any significant impacts of Indonesia exchange rate, Indonesia exchange rates volatility, export price index (EPI) towards export of non-oil and gas by commodity during 2013 – 2017?

**1.5 Research Purpose**

Based on research Question, the purpose of this researches is:

1.  To know the condition of Indonesian Exchange rate, Exchange rate volatility, Export price index and export of non-oil and gas by commodity during 2013-2017.
2.  To know the significant impact of Indonesia exchange rates toward export of non-oil and gas by commodity during 2013-2017.
3.  To know the significant impact of Indonesia exchange rates volatility toward export of non-oil and gas by commodity during 2013-2017
4.  To know the significant impact of export price index (EPI) toward export of non-oil and gas by commodity during 2013-2017

5. To know the significant impact of Indonesia exchange rate, Indonesia exchange rate volatility, export price index (EPI) towards export of non-oil and gas by commodity during 2013-2017

## 1.6 Significance of the research

Theoretically, this research contributes to give pictures of analysist on influence of Indonesia exchange rate, Indonesia exchange rate volatility, export price index (EPI) towards export of non-oil and gas by commodity and also being a reference in order to defend the impact of volatility of exchange rates. In further way, the result of this research can help and analyze to make a decision-making reference to related parties such as investor, finance manager, International trader and Ministry and Finance.

## 1.7 Scope of Research

This Research use a sample from Ministry of trade (kemendag), Bank of Indonesia (BI) and Statistics Indonesia (BPS) data because the transform for export has been digitalized by government. The period of this research using monthly observation by data from 2013-2017 began in the first day of January until the last day of December.

## 1.8 Writing Systematic

This research is presented into 5 (five) chapter, the systematics are as follows:

CHAPTER 1: INTRODUCTION

    This chapter briefly presents general explanation of the research. The content includes overview of research object, research background, research questions, objectives, significance of the study, and writing systematics.

CHAPTER II: LITERATURE REVIEW AND SCOPE OF THE RESEARCH

    This chapter contains literature review and previous researches which are related to the topic and variables of the research.

CHAPTER III: RESEARCH METHODOLOGY

    This chapter describes the characteristic of the research, method of collecting data, and data analysis methods.

CHAPTER IV: ANALYSIS AND DISCUSSION

    Discusses the methodology and empirical results.

CHAPTER V: CONCLUSION AND SUGGESTION

    The last chapter of the research presents the conclusion which is derived from all the data processing and analysis and recommendation for further development field of the research.