

State Policy Making on Coffee International Trade Commodities

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Abstract: *This research will be carried out to find out how the trade balance of coffee commodities in Indonesia, the impact of international trade policies on domestic coffee commodity prices, the development of export and import processes for coffee commodities, and international trade policies for coffee commodities in Indonesia will be affected. This study will use a qualitative approach through descriptive methods with data from research and previous studies relevant to this research. This study found that there were fluctuations in the coffee export process in Indonesia, with a tendency for an increase. Meanwhile, in the import process itself, the fluctuations tend to be quite sharp, although there is a similar tendency to continue to increase. In the trade balance, it was found that the export volume of coffee commodities in Indonesia was higher than the value of the volume of imports. The coffee commodity could become one of the largest foreign exchange earners for the Indonesian state.*

Keywords: *Coffee Commodity, Import, Export, International Trade, Policy.*

Introduction

Coffee is one of the staple products of the plantation subsector, which is vital to Indonesia's economic expansion. As a source of foreign exchange profits, employment opportunities, and revenue for coffee growers and other economic actors involved in the cultivation, processing, and coffee business (Martauli, 2020). Indonesia's position in the worldwide market is highly crucial, as the world's third-largest producer and exporter of coffee after Brazil and Vietnam. However, after Brazil, three other countries face intense competition and alternate ranks as the largest coffee producers and exporters globally, namely Vietnam, Indonesia, and Colombia (Atmadji et al., 2018).

The perspective of the role and ranking of Indonesia's coffee exports as described above indicates that until now, and as is also expected in the future, the management of the coffee plantation subsector has excellent potential to be developed. Even in the international market, coffee is the second most traded commodity after crude oil (Dos Santos et al., 2021). However, efforts to develop coffee commodities face several problems, both originating from the international market order and the domestic market order. In the global market setting, fluctuating prices seem to be a continuous feature because they are influenced by fluctuations in world coffee production (German et al., 2020). When viewed from the demand side, world

coffee consumption tends to experience a relatively high increase, so the International Coffee Organization (ICO) urges coffee producing countries to increase coffee production and quality to overcome the problem of tight supply and growing world coffee consumption (Abafita & Tadesse, 2021).

In the basic international trade theory, a country's exports are the excess of domestic supply or production of goods or services that that country's consumers do not consume. Because coffee consumption in Indonesia is low, while coffee production tends to increase, it can be ascertained that there is always an excess of Indonesian coffee production. This excess production is mainly intended for export (Fitriani et al., 2021). Thus, the size of coffee production will affect the volume of Indonesian coffee exports. The export volume of a country's coffee will increase as a result of its development plans, which will have an effect on the export volume of its competitors (Sarirahayu & Aprianingsih, 2018). Consequently, a rise in coffee exports from Indonesian competitors such as Brazil, Colombia, and Vietnam will have the potential to lower Indonesian coffee exports.

Several previous studies studied Indonesian coffee using various models and different time and observational data. However, to formulate multiple policies for developing Indonesian coffee in the future, previous studies need to be continued and expanded by re-specifying the model and using the latest observational data or information (Manson et al., 2022). In addition, this research is a form of participation of academics to realize the direction of development of the plantation sub-sector as determined by the Directorate General of Plantation Production Development,

namely to discover efficient, productive, and highly competitive plantations for the prosperity of the people in a just and sustainable manner (Herdiansyah et al., 2020). Based on the description above, this study aims to determine coffee import development and export policies in Indonesia.

International Trade

International trade is trade across borders to create competitive prices for goods and services. The trade theory is well known and introduced by the eminent economist Adam Smith, who developed a theory known as the absolute advantage theory (Elmslie, 2018). Smith's view is that the trend of international trade is the same as that of trade in general (there is barter, exchange, etc.). On the other hand, in every trade, it is clear that each trader's interest has been sought. This is the motive of international trade, not only do business actors benefit, but they can also be utilized in international trade (Chandra, 2019).

Whereas to achieve perfect profit, business actors can maximize the division of labor to increase the quantity by identifying the reasons for this development, namely: (1) increasing dexterity in specific jobs; (2) saving production time and work; and (3) the invention of new machines that facilitate and limit labor and allow for large production. This will lead to better income, and the significant effect is to rapidly create a country's economic growth (Lemaire & Limbourg, 2019).

The existence of international trade also creates a broader market. Through the support of the labor force and maximum production, it is hoped that countries can feel the "fun" of implementing international trade

(Kozlenkova et al., 2021). However, Adam Smith's statement sparked controversy by pointing out that residents could barter for goods that produce domestic profits in international trade. In this way, the needs of public educators could be met. And the last concept is how to create the same price through harmonized rules between domestic and international trade, ensuring fairness and competition (competitiveness) in trade practices (Cowan et al., 2021).

Export and Import

Export is the activity of selling domestic goods or services to parties abroad. Usually, there are direct and indirect export activities in Indonesia. Meanwhile, importing is buying (bringing) goods or services from other countries into the country (Aba, 2021). According to the Directorate General of Customs and Excise, export is a process of transporting goods or commodities from within the country to abroad. Meanwhile, imports are entering goods or items from abroad into the country (Su et al., 2020).

The definition given by other experts, namely Sugiyono, is that export is an activity of removing goods from within the country to abroad. Imports are activities carried out by entering goods from abroad into the country (Verschuur et al., 2021).

Then the definition given by Sugianto is that import is the activity of entering goods into the customs area. At the same time, export is the activity of removing goods from the customs area. An import duty is a state levy imposed on imported goods. Meanwhile, export duty is a state levy imposed on exported goods (Sugianto & Azmi, 2020).

The purpose and benefits of exporting goods from within to abroad are to grow the domestic industry. Export

is a form of international trade activity which aims to stimulate domestic demand, which in turn causes the growth of large manufacturing industries. Then, by exporting, the state seeks to take advantage of the excess installed capacity of a product (Chen et al., 2019). The objective is to maintain price control over export products in the country. When a product is produced in plenty, its price in the country will be low because it is so easy to obtain. Therefore, to control costs and remain stable, the state exports to other countries that need these products (Wouters et al., 2021). Lastly, export activities certainly positively impact a country's economic growth. The advantages of exporting are the opening of new foreign markets, the expansion of the domestic market, the growth of investment, and the increase of a country's foreign exchange reserves (Nugroho et al., 2021).

In fulfilling its requirements, there must be at least one thing that makes the government build good relations with other countries (Percebois & Pommeret, 2021). One of them is in this economic activity. Another objective of import activities is to strengthen the balance of payments and reduce the outflow of foreign exchange abroad (Dvoskin & Feldman, 2018).

Method

This research will be carried out using a qualitative approach through descriptive methods. The data used in this study is derived from previous studies and studies that still have relevance to this research. Researchers will analyze the research data that has been collected to be able to find research results that follow the objectives of this study.

Result and Discussion

Development of Indonesian Coffee Export Volume

From 1980 to 2016, the development of Indonesia's coffee export volume fluctuated with an average annual growth rate of 3.80 percent. In 1980, Indonesia's coffee exports amounted to 238.68 thousand tons with an export value of \$656 million; by 2016, the volume of coffee exports had increased to 414.65 thousand tons with an export value of \$1,008.55 million. In the five years (2012–2016), the volume and value of coffee exports increased by 1.04 percent each year, with the export value declining by 4.52 percent per year, or by \$1,133.84 million. The steepest fall in Indonesian coffee export volume happened in 2014, when it fell by 27.94 percent, or 384.82 thousand tons, resulting in an 11.47 percent decline in Indonesian coffee export value, or \$1,039.34 million. Allegedly, the reduction in coffee exports that year was precipitated by a decline in coffee production in the same year, amounting to 5.40 percent overall and 5.03 percent in smallholder plantations, with production reaching 612.88 thousand tons of ground coffee.

Indonesia's Coffee Export Destinations

The export destination countries for Indonesian coffee in a fresh and processed form in 2016 reached 414.65 thousand tons. Of the total exports, if seen, the destination countries are spread over ten export destination countries with a total market share of up to 74.51%, or an export volume of 308.95 thousand tons of fresh and processed coffee. Indonesia's most prominent coffee export market is the United States (USA), which

reached a total export of 67.32 thousand tons, or a share of 16.24%, with a total export value of US \$269.94 million. The following export destination country that contributed significantly was Germany, with a market share of 10.28 percent, or 47.63 thousand tons, or a total export value of US \$90.19 million. The five Indonesian coffee market countries with percentages above 5% are Malaysia, Italy, Japan, Federal Russia, and Egypt, with a share range of 5.10% to 9.74%. Meanwhile, England, Belgium, and Indonesia all had a share of Indonesia's coffee trade of 4.43%, 2.93%, and 2.79%.

The Development of Indonesian Coffee Import Volume

Indonesia's coffee imports fluctuated quite sharply with a tendency to increase after 1991 and increased very significantly in 2006 and 2007. From 1980 to 2016, Indonesia's coffee imports increased by 160.76% per year, or 8.44 thousand tons, from 46 tons in 1980 to 25.17 thousand tons in 2016. In absolute terms, Indonesia's highest coffee import volume occurred in 2012, reaching 52.65 thousand tons, or US \$117.18 million. Over the past eight years, the total volume of coffee imports has fluctuated dramatically. The total volume of natural coffee imports in 2010 was recorded at 19.76 thousand tons with a value of US \$34.85 million. In 2011, the volume of imports of natural coffee decreased by 8.34 percent and increased very sharply in 2012 by 190.73 percent compared to 2011. Natural coffee imports totaled 14.22 thousand tons in 2017, valued at US \$33,583 million, a 43.5 percent decrease from 2016.

Country of Origin for Indonesian Coffee Imports

Imported coffee in Indonesia in 2016 reached 25.17 thousand tons in fresh and processed form, with the most dominant coming from Vietnam, with a market share of imported coffee of 75.77% and import volume reaching 19.07 thousand tons with a value of US\$ 31.03 million. Two other countries contributing above 5% were Brazil with 13.36% or an import volume of 3.36 thousand tons and East Timor with 5.77% or an import volume of 1.45 thousand tons. The three countries of origin for imported coffee reached 94.89% of Indonesia's coffee import market share.

Indonesian Coffee Trade Balance

Based on the performance of Indonesian coffee export and import data from 1980 to 2016, although in absolute terms, it fluctuated with a propensity for export volumes to be greater than import volumes, making Indonesian coffee exports consistently more valuable than imports. Due to the surplus-prone nature of the coffee industry, Indonesia is a major contributor of foreign exchange. Indonesia's coffee trade balance from 1980-to 2016 experienced an average increase of 7.16% per year. Indonesia's largest coffee trade surplus occurred in 2015, amounting to US \$1,166.2 million, or an increase of 14.66% compared to the previous year's trade balance, while the lowest coffee trade surplus occurred in 2001, at US \$183.41 million, or a decline in growth of 41.78% compared to the coffee trade in 2000. The coffee trade balance over the past five years has maintained an average surplus of \$1,077.29 million, with exports averaging \$1,133.84 million and imports averaging only \$56.55 million.

Indonesian Coffee Export Policy

The regulations of the International Coffee Organization (ICO) govern coffee exports. The ICO supervises global coffee commerce in order to ensure the stability of global coffee prices in the face of supply and demand imbalances (Stylianou et al., 2018). In 1957, international institutions implemented coffee trade restrictions with a quota system, limiting the number of coffee exports to the global market.

This quota system was eliminated in 1989 because coffee producers deemed it unprofitable. Therefore, each coffee-producing nation is free to export any quantity of coffee. This trade liberalization decreased the trend of coffee prices on the worldwide market, which reached its lowest point in 1993. (Guido et al., 2020). To combat the drop in global coffee prices, the ICO regulates the global coffee trade by establishing export quality requirements for coffee. The implementation of coffee exports by Indonesia, as one of the coffee producers and exporters among ICO members, is also based on ICO regulations (Grabs, 2020). Previously, the quota system implemented by the ICO was distributed to exporters based on the Decree of the Minister of Trade No. 85/KP/III/86, dated March 7, 1986, concerning Provisions on the National Ration for Coffee Exports. The national coffee export quota is calculated based on domestic coffee production and the provision of buffers that need to be maintained.

The export provisions were last regulated in the Regulation of the Minister of Trade of the Republic of Indonesia No.109 of 2018. The conditions for coffee exports are regulated as follows:

- a. Only companies designated by the Director-General of Foreign Trade of the Ministry of Trade as Registered Exporters of Coffee (ETK) are permitted to export coffee.
- b. Each coffee export must also be accompanied by a Coffee Export Approval Letter (SPEK), a letter of authorization for exporting coffee to all destination countries provided by the service responsible for trade in the province/region/city. SPEK may also be utilized for export shipments from Indonesian ports.
- c. Coffee that is exported must meet the quality criteria established by the Minister of Commerce and be accompanied by a Certificate of Origin. This letter is a certificate used to accompany commodities (coffee) exported from all of Indonesia, confirming that the goods (coffee) originate and are manufactured in Indonesia.

Coffee Price Developments in Indonesia

In general, the development of coffee prices shows an increasing trend of an average of 4.80% per year. Namely, the cost of robusta coffee producers in 2008 reached Rp. 13,722 per kilogram and in 2016, based on provisional figures, it was Rp. 19,813 per kilogram. The increase in coffee prices was significant in 2011 and 2014, by 10.23% and 10.24%, respectively. The development of coffee prices has also tended to increase significantly in the last five years, namely an average increase of 4.91% per year or reaching an average price of Rp. 17,750 per kilogram. Likewise, the development of coffee prices at the producer level in the last two years tends to continue to increase by 9.28%, or the cost of Rp.

19,135 to Rp. 19,813 in 2016, or an increase of 3.55%.

Conclusion

Every year, the export volume of coffee from Indonesia fluctuates with an upward trend. In the past ten years, the growth rate of Indonesia's coffee imports has fluctuated significantly but tends to increase. The coffee trade balance swings with a tendency for export volumes to be greater than import volumes, and the value of Indonesian coffee exports is consistently greater than the value of imports. Due to the surplus-prone nature of the coffee industry, Indonesia is a major contributor of foreign exchange. From the significant increase in coffee prices over the last eight years, it can be concluded that international coffee trade policies positively impact increasing costs at the domestic producer level.

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