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# CHALLENGES OF EXCHANGE RATE FLUCTUATION AND CPO PRICES IN INDONESIA PALM OIL INDUSTRY

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## ABSTRACT

**Objective :** This study points to analyze the challenges of Rupiah Exchange Rates and International CPO Prices to Indonesia's CPO Export Volume.

**Design /methodology/approach :** this research exercises explanatory type under a quantitative approach. Data collection techniques in this study were done by time series techniques. The data analysis technique used is Structural Equation Model (SEM) with the Smart Partial Least Square (PLS) tool.

**Findings :** The study results indicate that: (1) Rupiah Exchange Rates do not have a significant effect on Indonesia's CPO Export Volume; (2) International CPO prices have a significant effect on Indonesia's CPO Export Volume.

**Practical implications :** intensify business in economy sector in order to reach the lower class people.

**Paper type :** research paper

**Keywords:** Rupiah Exchange Rates, International CPO Prices, Export Volume

## I. INTRODUCTION

Indonesia is an agrarian and tropical country whose improvement is supported by the horticulture sub-area. One of the agricultural sub-sectors is plantation. Plantation is a sub sector that has a central role in development. For the Indonesia development, export-import transactions are very vital economic activities. Plantation products are exported and become the leading commodity, namely palm oil. Palm oil has good prospects as a source of foreign exchange income and is able to create employment opportunities while increasing the people welfare in the production processing.

Palm oil is one of Indonesia's main export commodities in international trade. Palm fruit is an important part of palm oil plants which will be processed into semi-finished oil, namely Crude Palm Oil (CPO) and finished oil (Palm Oil). Based on BPS 2009 data, almost all Indonesia regions can be used as oil palm plantations that produce CPO (Maygirtasari, Yulianto, & Mawardi, 2015).

The Ministry of Agriculture (2012) explains that in 2011, total world palm oil production was 50,894 thousand tons, Indonesia produced 40.27% or 23,900

thousand tons of total world palm oil production, while Malaysia was 40.26%, Thailand 2.78%, Nigeria 2.03%, and Colombia 1.80%.

According to the Coordinating Minister for the Economy Darmin Nasution explained the palm oil industry is currently facing a number of challenges. One of them is related to the CPO prices decline. So far this year, CPO prices have fallen 23.7 percent from US \$ 636 per ton in early 2018 to US \$ 485 per ton (CNN Indonesia, 2018). According to East Kalimantan Indonesian Palm Oil Entrepreneurs Association (GAPKI) Muhammad Sjah Djafar said that the growth in the value of CPO exports slowed from 158.85 percent (yoy) in early 2019 to 53.77 percent (Jpnn.com, 2019).

## A. LITERATURE REVIEW

### 1. International Trade Theory

According to Christianto (2013) A simple definition of international trade according to the economic dictionary is trade that occurs between two or more countries. Foreign trade is an important aspect for a country's economy. International trade is becoming increasingly important not only in developing an outward-oriented country but also in finding markets in other countries for the production of products in the country and the procurement of capital goods to support the development of industries in the country.

International trade begins with an exchange or trade in labor for other goods and services. The basis in international trade is the existence of trade in goods and services between two or more countries which aim to gain profit. This trade occurs when there is demand and supply in the international market.

Speculations and arrangements of worldwide exchange are microeconomic parts of global financial aspects since they identify with every country as people who are treated as a solitary unit, just as identified with the general costs of one ware. Then again, on the grounds that the equilibrium of installments is identified with absolute income and installments while the change strategy influences the public pay level and the overall value record, both of these show the macroeconomic parts of global financial aspects (Salvatore, 2011).

### 2. Exchange rate

Cash trade rates are the costs of monetary standards comparative with other nations' monetary standards, and in light of the fact that this conversion scale incorporates two monetary forms, the equilibrium point is dictated by the market interest of the two monetary standards (Abimanyu, 2004). Mankiw (2013) recognizes two trade rates, to be specific the ostensible swapping scale and the genuine conversion standard. Ostensible swapping scale is the general cost of the monetary standards of two nations. While the genuine conversion scale is the general cost of the products of the two nations. The conversion standard of a money is a correlation of the estimation of one country's cash to another far off nation's cash (Thobarry, 2009).

Nopirin (2009) elucidates that the exchange rate is an exchange between two different currencies, so the ratio / value between the two currencies will be obtained. Changes in exchange rates can be divided into two, namely depreciation

and appreciation. Deterioration is a lessening in the cost of the homegrown cash against unfamiliar monetary standards, while appreciation is an increment in the cost of the homegrown money to unfamiliar monetary forms (Krugman, Obstfeld, & Melitz, 2012).

Rupiah conversion scale is a correlation between the estimation of a country's cash with another country. The swapping scale mirrors the equilibrium of interest and supply of homegrown and unfamiliar monetary standards of US \$. The declining rupiah swapping scale mirrors the decrease in broad daylight interest for the rupiah because of the declining job of the public economy or on account of the expanding interest for US \$ unfamiliar monetary forms as a global installment instrument. Reinforcing of rupiah swapping scale somewhat implies that it mirrors an improvement in the presentation of the currency market. Because of the increasing expansion rate, the homegrown conversion standard has debilitated significantly more against unfamiliar monetary forms. This brought about a decrease in the exhibition of an organization and interest in the capital market to be diminished (Nasution, 1998).

### 3. Price

Cost can be deciphered as the measure of cash (financial unit) as well as different angles (non-money related) that contain certain utilizations expected to acquire an item (Tjiptono, 2014). Cost is one component of the promoting blend that creates assessment. Cost is the most youthful component in an advertising project to change item highlights, channels and furthermore correspondence requires additional time. The cost likewise conveys the planned worth situating of the item or organization brand to the market. Very much planned and promoted items can be sold at exorbitant costs and create enormous benefits (Kotler & Keller, 2012) Prices are measured in money. The value of an item is the basis for determining the price of the item. The price has a set price for the goods to be exported.

### 4. Export Volume

Mankiw (2013) clarifies that fares are different sorts of merchandise and ventures that are created locally and afterward sold abroad. According to Curry (2001) exports are goods and services sold to foreign countries to be exchanged for other goods (products, money). The export process in general is an act of removing goods or commodities from within the country to import them into other countries. Large goods exports generally require the intervention of customs in sending and receiving countries.

Fare action is an exchanging framework by eliminating merchandise from homegrown and abroad by satisfying pertinent guidelines. Fares are complete merchandise and ventures sold by one country to another, including among products, protection, and administrations in a given year (Triyoso, 2004). Furthermore Simamora (2006) described that exports are activities of removing goods from customs areas, while exporters are companies or individuals that carry out export activities. Sukirno (2010) expounds that export activities have several benefits, including:

### 1. Expanding the Market for Indonesian Products

Export activities are one way to market Indonesian products abroad. For instance, batik garments is one of Indonesia's items that is getting known by the world local area. On the off chance that the interest for batik garments made in Indonesia builds, the pay of batik makers is more noteworthy. Consequently, batik creation exercises in Indonesia will additionally create.

### 2. Adding Foreign Exchange

Exchange between nations permits Indonesian exporters to offer products to individuals abroad. This exchange can increment unfamiliar trade income. Subsequently, the country's abundance increments on the grounds that unfamiliar trade is one wellspring of state income.

### 3. Expanding Employment

Fare exercises will open up work openings for individuals. With the growing business sector for Indonesian items, homegrown creation exercises will increment. An ever-increasing number of laborers are required with the goal that more broad work.

Companies that have competence in the fields of marketing, manufacturing and innovation can make its as a souch to achieve competitive advantage (Daengs, Istanti, Negoro, & Sanusi, 2020:1419):p. <sup>ETS</sup>

## II. METHODOLOGY

### Conceptual Framework

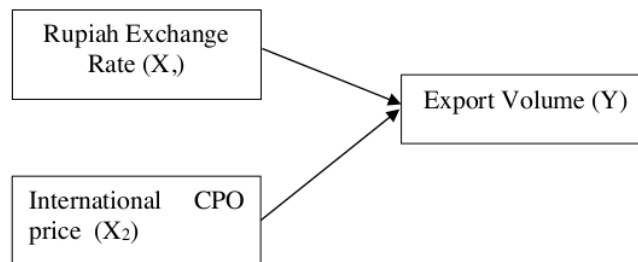


Figure 1. Conceptual Framework

### Hypothesis

H<sub>1</sub> The Rupiah Exchange Rate has a significant effect on Indonesia's CPO Export Volume.

H<sub>2</sub> International CPO prices have a significant effect on Indonesia's CPO Export Volume.

## RESEARCH METHODS

### Kinds of Exploration

Kind of exploration is logical examination. Logical exploration is utilized with the highlight dissecting relationship between factors through speculation testing (Silalahi, 2009). The methodology utilized is a quantitative technique. As expressed by Sugiyono (2016) quantitative strategies are information as numbers or subjective information that is outlined/scoring. Quantitative techniques can be deciphered as examination strategies dependent on way of thinking of positivism, used to analyze populaces or explicit examples, information assortment utilizing research instruments, quantitative/measurable information investigation, with the reason to test the theories that have been set (Sugiyono, 2016).

#### **Definition of Variable Operations**

An operational definition is a definition given to a variable or develop through giving importance or determining a movement, or giving an activity expected to survey the build or variable (Nazir, 2014). The accompanying will portray the operational meaning of each exploration variable as follows:

1. Rupiah Exchange Rate (X.)  
Rupiah conversion scale is a correlation between the estimation of a country's money with another country.
2. International CPO Price (X<sub>2</sub>)  
Cost is the most youthful component in an advertising project to change item highlights, channels and furthermore correspondence requires additional time.
3. Indonesian CPO Export Volume (Y)  
Fares are different sorts of products and ventures that are created locally and afterward sold abroad.

#### **Data collection technique**

This exploration was led under state of the Indonesian economy in 2007-2017 to inspect the rupiah conversion standard and worldwide CPO costs that influence the volume of Indonesian CPO sends out that happened around there.

#### **Data analysis technique**

The examination strategy picked to dissect information and test the speculations in this investigation is The Primary Condition Model (SEM). To answer the theory utilized Incomplete Least Square (PLS). As said by Ghozali (2012) computations are finished utilizing the Brilliant Fractional Least Square (PLS) apparatus, since it is multi-way molded and the model utilized is Intelligent. Estimation model is performed utilizing Shrewd PLS helps in light of the fact that in this investigation it has multi-way affiliation and is developmental and intelligent.

### **III. RESULTS AND DISCUSSION**

#### **Inward Model Assessment**

The internal model which is here and there likewise called (inward connection, underlying model and considerable hypothesis) determines the impact between the exploration factors (primary model).



### Internal Model Test or Primary Model Test

The examination aftereffects of the reasonableness of underlying model built show end that the general model has been "Applicable" to clarify the factors contemplated and their consequences for every factor. For endogenous idle factors in the primary model which has a R2 of 0.67 showing that the model is "acceptable", R2 of 0.33 demonstrates that the model is "moderate", R2 of 0.19 demonstrates that the model is "powerless" (Ghozali, 2012) . The PLS yield as depicted underneath:

Table 1. R-Square value

	R-Square
Rupiah exchange rate (X <sub>1</sub> )	
International CPO price (X <sub>2</sub> )	
Indonesia's CPO export volume (Y)	0.774

The outcomes in the table above show that the variable Rupiah Trade Rates and Worldwide CPO Costs that influence Indonesia's CPO Fare Volume in the underlying model have a R2 of 0.774 which demonstrates that the model is "Moderate".

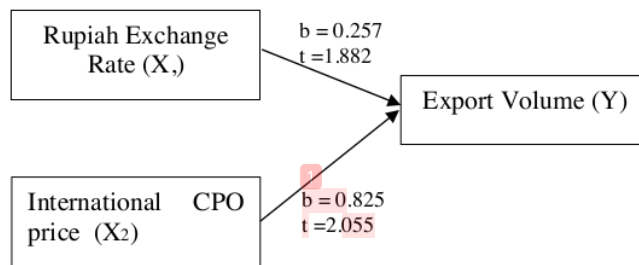


Figure 2. Inner PLS R-Square Model

There are exogenous factors in the inward model examined, to be specific Rupiah Conversion scale and Worldwide CPO Costs, while endogenous variable in the internal model under examination is the Indonesian CPO Fare Volume. The aftereffects of the inward weight esteem in Figure 2 above show that the Indonesian CPO Fare Volume variable is affected by Rupiah Trade Rates and Worldwide CPO Costs, which are appeared in the accompanying condition:

### Hypothesis Testing Results

#### Hypothesis 1 Test (H<sub>1</sub>)

The main speculation in the investigation was not demonstrated to be valid, this is known from the t estimation of 1.882 which implies it is more modest than 1.96, this implies that the Rupiah Conversion scale has no critical impact on Indonesia's CPO Fare Volume. The heading of the relationship between two factors is positive which implies that if the rupiah swapping scale builds, it will

additionally expand Indonesia's CPO Fare Volume however not altogether by having an enormous impact of 0.257.

### Hypothesis 2 (H<sub>2</sub>)

The second theory in the exploration end up being valid, this is known from the t estimation of 2.055, which implies more prominent than 1.96, this implies that the Global CPO Cost significantly affects the Indonesia's CPO Fare Volume. The heading of the relationship between two factors is positive which implies that the higher global CPO cost will expand the Indonesian CPO sends out volume by having an enormous impact of - 0.825.

## DISCUSSION

### Effect of Rupiah Exchange Rates on Indonesia's CPO Export Volume

Results from information examination showed that the Rupiah Swapping scale didn't significantly affect the Indonesia's CPO Fare Volume which was proven by the t estimation of 1.882 which implies it was more prominent than 1.96, so it tends to be clarified that the expansion in Indonesia's CPO Fare Volume couldn't really be expanded through the presence of significant worth high rupiah trade rates. The impact of the Rupiah Swapping scale on the Indonesia's CPO Fare Volume is positive which demonstrates that the higher the rupiah conversion standard will affect the expanding CPO Fare Volume in Indonesia however it isn't huge. Along these lines the primary theory in this investigation which peruses "Conversion standard of Rupiah significantly affects Indonesia's CPO Fare Volume", can be proclaimed unsatisfactory.

The discoveries in this investigation demonstrate that the Rupiah Swapping scale has a positive however not huge impact on Indonesia's CPO Fare Volume. The examination brings about line with the discovering study directed by Atlas (2015) who found that there was no critical impact of the rupiah conversion standard variable on the volume of Indonesia's CPO fares to the Netherlands. Nonetheless, the discoveries in this investigation are not in accordance with the discoveries of exploration by Maygirtasari et al. (2015) wherein in her exploration it was said that Indonesia's CPO Fare Volume could be fundamentally affected by the Rupiah Swapping scale against the US Dollar or by expanding the Rupiah Conversion standard against the US Dollar, the Volume Indonesia's CPO fares will encounter a huge increment.

### Effect of International CPO Prices on Indonesia's CPO Export Volume

Information investigation result showed that the Worldwide CPO cost affects Indonesia's CPO Fare Volume, which is demonstrated by a t estimation of 2.055, which implies it is more noteworthy than 1.96, so it very well may be clarified that the Indonesia's CPO Fare Volume can be shaped through the Global CPO value level. Accordingly the second speculation in this examination which peruses "Global CPO Costs significantly affect Indonesia's CPO Fare Volume",



can be announced worthy. Nonetheless, the impact of Worldwide CPO Costs on Indonesia's CPO Fare Volume is negative, which shows that the more suitable Global CPO costs offered, the more effect on CPO Fare Volume in Indonesia.

Based on the aftereffects of examination that has been done, it is demonstrated that the Global CPO cost has a huge and adverse consequence on Indonesia's CPO Fare Volume. This huge adverse consequence demonstrates that Worldwide CPO costs have a significant job in endeavors to build Indonesia's CPO Fare Volume. So this can be deciphered that the more in accordance with the global CPO costs offered, the more volume of Indonesia's CPO fares will be diminished. In this way, if Indonesia needs to expand the volume of Indonesian CPO sends out, it is vital for the Indonesian government to focus on the lower level of global CPO costs. The discoveries in this examination are not in accordance with the discoveries of exploration led by Alatas (2015) who found that there was no critical effect on global value factors on the volume of Indonesian CPO fares to the Netherlands. The discoveries of this investigation additionally don't uphold the aftereffects of an examination directed by Maygirtasari et al. (2015) who likewise tracked down that worldwide CPO costs didn't fundamentally influence Indonesia's CPO send out volume.

#### IV. CONCLUSION

1. The Rupiah Conversion scale doesn't significantly affect Indonesia's CPO Fare Volume. Consequently, the primary speculation in this examination can be pronounced inadmissible.
2. International CPO costs impact Indonesia's CPO Fare Volume. Hence the second theory in this examination is satisfactory.

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PAGE 5

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