

Government Intervention and the Improvement of Competitiveness of the National Coffee Industry: The Case of Indonesian Gayo Coffee

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Abstract

This article analyses the Indonesian government's intervention to increase the competitiveness of its national coffee industry, especially one of its speciality coffees known as Gayo coffee. It aims to describe the value of Gayo coffee competitiveness based on the level of production, export volume and income of coffee farmers. In doing so, this study used Michael Porter's competitive advantage analysis which is known as the diamond model concept. The findings show that the four indicators in the diamond model concept cannot be fulfilled to make Gayo coffee a product that has competitive advantages for the government intervention was not sufficient in improving the good climate of the Gayo coffee industry. Stakeholders' cooperation in the coffee industry is needed to improve or continue the government efforts so that the Indonesian coffee industry can be competitive with the ones from other countries.

Key Words

Government, Gayo coffee, speciality coffee, added value, diamond model, competitiveness.

Introduction

Indonesia has a total area of 1,237,001 ha of coffee plantations with an average production of 679.8412 tons in 2015 (Ministry of Agriculture 2017), of which 96% of the output comes from smallholder coffee plantations involving 1,765,491 farmers (Directorate General of Plantation 2015). The existence of land and coffee farmers like this is quite large and allows Indonesia to produce coffee in sufficient quantities. However, even though Indonesia is said to be the largest coffee-producing country, the country is still not able to surpass Vietnam and Brazil as their coffee production continues to increase.

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There are problems facing the Indonesian coffee industry such as coffee production and productivity tends to be unstable and even decreases compared to previous decades. This is particularly true for speciality coffees like Gayo coffee. A variety of obstacles facing Gayo coffee farmers including the instability of coffee production that affects the fulfilment of consumer demand for coffee as a result of climate global climate change; the trading transaction system which is still centralized in North Sumatra (Belawan port) causes farmers and cooperatives to spend more in the trade transaction process; the low knowledge of consumption patterns of consumers leads coffee farmers not to innovate in offering their products and they only know that coffee is a beverage product with a low selling value; and oligopolistic practices that take advantage of the coffee farmers (especially those in remote areas) ignorance of coffee market price and trends (WIKIKOPI 2015).

All these are obstacles facing especially Gayo Aceh coffee farmers, who see the condition of their land as adequate and vast, but low in coffee productivity and exports. Vietnam has much smaller coffee fields than Indonesia (Sutopo 2017), but Vietnam has a superior strategy that is implemented by the central government, the private sector and farmers in developing productivity and maintaining national coffee production and competition in the global market.

In this article, I examine the case of well-known Gayo coffee from Aceh, Indonesia. I will analyse to what extent the Indonesian government takes measures related to Gayo coffee and how these have influenced the competitiveness of Gayo coffee.

In doing so, this study used a qualitative research method. In the data collection, it obtained primary data through interviews by interviewing actors related to the national coffee industry and Gayo in particular, such as the Coffee Exporters Association (Indonesia & NAD), Indonesian Trade Promotion Center, Indonesian Coffee and Cocoa Research Institute (ICCRI) and private activists who are concerned about the coffee industry (coffee shops and individual actors).

The secondary data were obtained through surveys and data collection from agencies related to policies and strategies in overcoming problems facing Gayo coffee, and data on the development of production, consumption, and export of Gayo coffee, such as from the Central Statistics Agency (central & NAD), Ministry of Agriculture, Ministry of Industry, and Ministry of Trade.

I used data triangulation analysis to analyse the collected data. Furthermore, I used the descriptive analysis method by describing the condition of Gayo coffee before and after the existence of a government

strategy based on the triangulation of existing data. Then, I made a comparison of the results of initial predictions of the existence of government strategies and efforts with existing facts.

The Indonesian Government' Strategies to Improve the Gayo Coffee Competitiveness in International Market

Economic globalization brings countries directly involved in the flow of global trade, including Indonesia. As a country with a high production of coffee, Indonesia plays an important role in contributing to the world's coffee needs, especially speciality coffee.¹ However, over time, the problems arising from the speciality coffee trade have become interesting issues because the market leader of the speciality coffee industry is still controlled by a country that does not have coffee availability due to the structural power of the existing conditions.

Talking about speciality coffee, it will be sustainable with Gayo coffee which is an example of the author's case, because Gayo coffee is one example of speciality coffee (JPW Coffee 2014). With this problem, Indonesia needs a strategy for developing and improving the quality, quality and quantity of Indonesian coffee, especially Gayo. Based on research conducted by Hanum Salsabila, the government implemented an inward-looking strategy through value chain analysis; product upgrading and chain upgrading as well as an outward-looking strategy by making efforts to increase branding, marketing, and speciality coffee design (Salsabila 2014).

In this study, I tried to analyse the government's strategy in Gayo coffee using an added value strategy by looking at the effect of this strategy on coffee competitiveness by using some indicators.

Competitiveness

Thomas Piketty (2014) in *Capital in Twenty-First Century* explains that in the context of global trade competition, competitiveness can be realized by looking at the country's trade surplus; the higher the country's trade surplus, the more it will be categorized as having a competitive edge. However, he then added that the concept of competitiveness is not always measured only by the existence of a trade surplus, but also through productivity (Piketty 2014). Thus, it is concluded that according to Piketty the condition of a product, company, or country can be measured based on productivity, which in this concept is categorized into two forms: the value of income earned by entrepreneurs or can be called the income of

¹ Specialty coffee is called "Petik Merah", literally means "red picking", which is a method of uprooting coffee cherries from the tree by picking them one by one, only selected from ripe coffee cherries. This makes the coffee beans have a high quality (<http://www.specialtycoffee.co.id/apa-itu-specialty-coffee/>).

farmers and the level of production and productivity generated from it is an improvement in innovation and income.

Referring to the competitiveness theory described by Piketty, in which efforts to develop competitiveness can be carried out by developing innovation to increase the added value of a product and produce high efforts for farmers (the coffee industry), Aceh tries to implement organic coffee development program as a way to develop the competitiveness of Gayo coffee.

This concept aims to increase the productivity of agribusiness businesses and farmers' income, community welfare and the creation of an organic coffee model/technique that can be adopted by other coffee-producing regions in Indonesia. The issue of organic coffee is increasingly being discussed by international parties and increasingly attracts consumers' interest (Directorate General of Plantation 2015).

The added value in this case has the meaning that if viewed from an economic point of view is the increase in added value and advantages with the existence of good agricultural processing, especially in the quality and quantity of Gayo coffee. This increase will affect the profits gained by farmers in the area on a small scale and profits for countries on a large scale. It also will improve the quality of processed products. The products produced by bio-industrial processes have other advantages compared to conventional processing coffee which sometimes uses non-organic fertilizers. It then will secure agricultural products and accelerate economic growth in other fields, where the bio-industrial process is carried out by integrating plant livestock.

In addition to seeing competitiveness with the development of value-added processing technology innovations, increasing competitiveness through other innovations has also become a government guideline. This includes the registration of Intellectual Property Rights from Geographical Indications of Gayo Coffee. After the registration, the community as a whole is expected to be more familiar with Gayo coffee and there are no more claims of Gayo coffee from other regions or countries.

Michael Porter's Competitive Advantage (Diamond Model)

Basically, competitive advantage arises when a country has an advantage in the same product. According to Porter, the same products between countries are not always competitive.

This is evidenced by the emergence of the concept of competitive advantage where the same product can compete if it has its advantages in the market. For example, Indonesia has the same agricultural products as

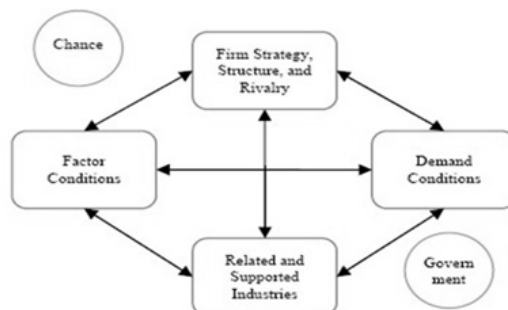
Thailand. This makes Indonesia and Thailand compete to create superior products even in different sectors. Similarly, this process will then be assessed by the market, where the market has the right to choose products based on existing advantages.

Four factors become pillars in the formation of competitiveness, a concept introduced by Michael Porter which is known as “the diamond model”. The diamond model helps understand the concept of a country’s competitive advantage, in contrast to the concept of comparative advantage. The concept of competitive advantage states that the conditions for the superiority of a product are not only that it is produced in a different country but it has different advantages from its competitors.

Porter also explains that the driving factors for the competitive advantage of a product can be seen in four main indicators, namely production factors, demand, related and supportive industries, and strategy, structure, and competition. In addition, according to him, existing competitiveness is also determined by the ability of the industry to innovate and improve its capabilities. The existence of competitive advantage is also supported due to pressures and challenges. Four factors in the diamond model (M. E. Porter 1990) are seen in Figure 1 as follows:

1. Conditions that refer to the inputs used as production factors such as labour, natural resources, capital and infrastructure;
2. Demand which refers to the availability of a domestic market that is ready to play an important role in generating competitiveness;
3. Related and supporting industries, which refer to the availability of a series and the existence of a strong link between the supporting industry and the company. This relationship and support are positive which leads to an increase in the company’s competitiveness; and
4. Firm strategy, structure and rivalry, which refer to the existing strategy and structure in most companies and the intensity of competition in certain industries.

Figure 1. The Diamond Model of Competitive Advantage



Source: *The Competitive Advantage of Nation*, Porter (1990)

Porter's competitiveness measurement model can be used as an indicator to see the extent of the government's efforts and strategies in developing the Gayo coffee industry by comparing existing strategies and Porter's concept of developing competitiveness with the four factors above.

Competitive Advantage of Gayo Coffee: A Diamond Model Analysis

In the concept of competitive advantage (Porter 1990), one of the main factors in increasing competitiveness is the fulfilment of quality human resources to manage natural resources in a structured and directed manner. The potential of the Gayo region in the coffee sector is not in line with the problems in the low human resource workforce, especially in this region. In some cases, the socialization of plantation technology has become one of the government programs in dealing with human resources in this area, but this does not run well where coffee farmers or business groups only get initial guidance and there is no direct mentoring effort by the government (Kironom 2017).

The unfulfilled renewal of human resources in the coffee industry as a whole will have an impact on increasing the amount of production (competitiveness). An increase in the quality of human resources will have a positive impact on innovation in an industry. Continuous assistance and socialization of the coffee industry will make coffee farmers and entrepreneurs independent in innovating coffee development technology.

Another effort is to add value to the Gayo coffee product by granting certificates related to organic coffee and fair trade based-coffee plantations. However, the existing certificates have not been able to have a positive effect on the quantity of Gayo coffee. The certificates provide added value to the product, but in fact they can only benefit certain parties without any significant effect on the Gayo coffee plantations.

The concept of fair trade is not considered a complete solution to increase competitiveness (Piketty-Index of Income & Productivity). Fairtrade which applies requirements (minimum price & premium fee) is an obstacle for coffee farmers in the Gayo highlands. The minimum price in the fair-trade concept is defined as a regulatory mechanism to ensure that coffee farmers can get a fair price, but in this concept, a quota in sales that can be made by farmers is also applied. Therefore, the coffee that exceeds the quota is sold to other buyers according to the provisions of the third party, without following the minimum price set by fair trade (Fajri 2015). Fairtrade is not considered the right solution for the Gayo coffee plantation industry if the objective is to increase competitiveness. A product will have more competitive value if it meets the total consumer demand.

The diamond model has so far been formed to identify the extent to which a company can build or develop an industry that can create a competitive advantage in global competition. At the country level, it is an analysis of the government in considering policies for national benefits and objectives and enabling the industries in the country to be ready to compete. According to Porter, the government can promote these benefits by ensuring the continuity of production or cooperation between related industries and the government.

In this case, I analyse the competitive advantage of Gayo coffee based on the diamond model. With the support and accuracy of strategic mapping from these four factors, the government or actors in Gayo coffee can increase the product's competitiveness.

Factor Conditions

This indicator is important in an industry, how the state shapes and creates and takes advantage of the main factors such as human resources, infrastructure, and technology. In the coffee industry, coffee plantation land, skilled labour, supporting infrastructure, and government policies that support plantation businesses are important components. Apart from the various obstacles that can affect this, the industry is required to fulfil all of these factors to improve production and commodity competitiveness.

The ownership of coffee plantation lands in the Gayo area is well known, especially among coffee activists as one of the largest contributing groups to the country's coffee beans. The area of coffee plantations in the Gayo highlands is one of the coffee plantation areas owned by Indonesia. Being in the highlands allows Gayo to specialize in the production of arabica (speciality coffee) types.

The area of coffee plantations in this region was recorded at 99,822 ha for arabica and 21,404 ha for robusta (Ministry of Agriculture 2017). This area is a distinct advantage for Aceh Province, where the area of land owned will have a positive impact on the number the resulting coffee production. However, the condition of these natural resources cannot be fully managed. This is influenced by the lack of quality human resources who can innovate in the process of developing and utilizing existing natural resources (NAD 2018).

The government's strategy in improving human resources has not been able to have a positive impact on the Gayo coffee industry (Kiron 2017), the existence of knowledge of coffee processing innovations is still very much needed in this area. Human resource improvement is not only in the workforce but in the coffee value chain technique itself. Apart from

the human resource factor, several other factors also affect the condition of the Gayo coffee plantation, such as the presence of modern technology and infrastructure that supports the business climate.

The government offers some assistance regarding infrastructure or technology for developing coffee cultivation, such as the concept of bio-industrial technology implemented by Balai Pengkajian Teknologi Pertanian (BPTP) Aceh, this technology carries the theme of organic as the result of utilizing plant-livestock integration. Based on the BPTP report, this concept can have an impact on the amount of production and can increase the value of income due to a decrease in production costs incurred by farmers (Aceh Agricultural Technology Research Institute 2015).

However, this process has not been developed thoroughly in the Aceh region, except in experimental land in one particular area so it had no significant impact on the Gayo coffee. In addition, many of the Gayo coffee entrepreneurs and farmers still use traditional concepts with manual processing of the use of human capabilities.

Demand Conditions

This factor is the level of consumer demand for the industry and how this industry increases innovation as a form of fulfilling the increasing and varied needs of consumers. The level of demand for Aceh coffee, especially Gayo, is quite good and the world community is quite familiar with Gayo coffee.

This is inseparable from the government's efforts to continue to encourage Gayo coffee to be better known to the wider community, not only in Indonesia but also internationally. The existence of the ITPC and international trade cooperation is a form of effort to introduce Gayo coffee products.

In addition, the cooperation and representatives of Indonesian trade agencies abroad (ITPC) often carry out promotions in the form of exhibitions organized by Indonesians or foreign parties. Gayo coffee is recorded as being active in participating in various national and international exhibitions and also competitions in several coffee activities organized by coffee organizations in other countries.

The amount of public demand for Gayo coffee will not give a positive value to labour or state income if problems with the amount of coffee production often hamper the industry in the Gayo area. From the aspect of commodity demand, Gayo coffee can be said to have a positive influence on the competitiveness of coffee, but in fulfilling this demand Aceh often experiences problems because the amount of product produced is not proportional to the consumer demand.

Related and Supporting Industry

The improvement of the Indonesian coffee industry is not only the responsibility of the government or coffee farmers but also the Indonesian people in general. Efforts in other related industries are to improve the packaging of Gayo coffee, for example (Darmanto, Adib and Wijayanti 2011). They studied that Kintamani arabica coffee with the 'packaging' of Surya Kintamani Bali coffee on aluminium foil plastic greatly attracts the consumer demand.

Packaging in this case not only looks attractive but is also safe for the product and its surroundings. The Food Agriculture Organization has also regulated the packaging system in the agricultural industry, especially on an export scale (Food Agriculture Organization 2015). The packaging and labelling system has several purposes such as physical protection, barrier protection, containment or agglomeration, information transmission, marketing, security, convenience, and portion control (Bix 2004). The existence of supporting and related industries in the coffee industry is not only in the packaging system but also in several other aspects, for example, machine technology used for post-harvest processing and government systems related to international trade (export regulations).

Firm Strategy and Rivalry

This is a factor that requires the government, private sector and companies to form, organize, regulate and manage industries in their countries. There are the Indonesian government's efforts and strategies to develop the competitiveness of Gayo coffee. The government made cooperation with labour and private parties in mapping and solutions related to problems in reducing the low competitiveness of Gayo coffee.

The role of the government can be seen in the provision of regulations regarding export-import provisions. In addition to the government, the presence of private parties and companies will also affect the increase in the competitiveness of Gayo coffee. So far, we have seen Indonesia's private coffee outlets use the brand "Indonesia coffee", instead of 'Gayo coffee' (Biga 2017).

Competitiveness Analysis

Strategies in international trade competition should be designed as well as possible by each actor, starting from the readiness of the product, company, industry or the country itself (Cho and Moon 2000). To win competitiveness, several factors become indicators of a country that has competitive values.

According to Porter, competitiveness is identified with an increase in the productivity of a commodity, capital, labour, quality of raw materials and technology. The concept of competitiveness that focuses on productivity is later denied by several parties considering that competitiveness does not only occur because of the productivity in that country.

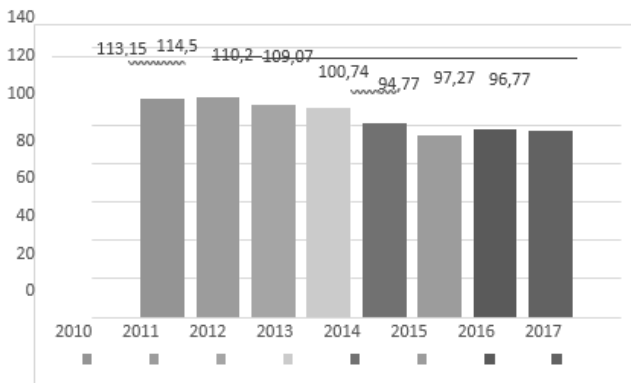
The government's strategy for increasing the competitiveness of Gayo coffee is an effort to maintain the existence of national coffee in the global market and to maintain the sustainability of production, considering that Gayo coffee is Indonesia's leading type of coffee. From the various explanations regarding the competitiveness above, it can be said that the level of competitiveness of a product can be seen based on productivity, the value of labour income, and the trend of Gayo coffee exports.

Income Index

Piketty gave the example of a country with a low level of production but a high level of competitiveness: the United States as a country with a high economic level even though it is dependent on imports. He explained that the USA as a country with a good level of competitiveness is influenced by some factors such as the presence of foreign investment in many of these countries, the US currency which is used as a benchmark for trade transactions in several countries and the high wage hours gained by workers. An increase in per capita income in a country can affect the rate of the country's economy, to increase the income per capita itself, it can be done by increasing the amount of national income and increasing the population growth rate.

In Indonesia, one of the sectors that affect national income is the agricultural sector, which is until now a source of livelihood for most of the population, including people who make agriculture the driver of the regional economy. As part of the agricultural sector, coffee plantations in this area also greatly influence the Gross Regional Domestic Product. The income index as an indicator of the competitiveness of Gayo coffee can be seen through the Farmers Exchange Rate which is the ratio between the price index received by farmers and the price paid by farmers (Aceh Central Statistics Agency 2016). Graph 1 shows an index of income received by the average coffee plantation worker in the Aceh region.

Graph 1. Farmer Exchange Rates 2010-2017



Source: Aceh Farmers Exchange Rate (BPS Aceh)

The decline in the exchange rate indicates that Aceh coffee plantations experienced obstacles in their development process. In general, the decline or minimum income of farmers was caused by some factors as follows: first, the transfer of coffee cultivation technology which is still monopolized by several institutions through several standards, which means that coffee farmers do not have access to technology or components related to the coffee industry; second, the existence of monopoly on the distribution of plantation products made farmers whose income depended on the company or factory get the results (income) from buying and selling based on prices set by the factory or company; and third, an unfair exchange of ownership of business land to the company/factory (Benderang Terang 2016).

Production & Productivity

A common problem facing the Indonesian coffee industry is the instability of coffee production (Biga 2017). This is true for the Aceh region (Kiron 2017) which has fairly large coffee plantation commodities. Apart from the development of the area of the Gayo coffee plantation, some problems make the plantation area an interesting issue such as the plantation area owned is not proportional to the amount of Gayo coffee production. Table 2 shows data on the development of coffee plantations in the Gayo area, both arabica and robusta types. The trend was that the plantation area has increased for the two types of coffee products during the last five years. However, the increase in the number of plantation areas was not directly proportional to the amount of existing production. Neither robusta nor arabica from this region has experienced an increase compared to previous years.

Table 2. The Area and Production of Robusta Coffee for the People's Plantation of Aceh Province 2013-2017

	2013	2014	2015	2016	2017
Land (Ha)	25.968	21.103	21.688	21.297	21.404
Production (Ton)	6.203	5.400	5.597	5.564	5.519
Productivity (Kg/Ha)	473	501	504	500	494
Farmers (households)	33.321	25.858	26.568	26.527	26.477

Table 3. The Area and Production of Arabica Coffee for the People's Plantation of Aceh Province 2013-2017

	2013	2014	2015	2016	2017
Lands (Ha)	97.796	99.564	99.584	99.763	99.822
Production (Ton)	42.079	44.423	41.847	41.814	41.309
Productivity (Kg/Ha)	652	826	736	728	713
Farmers (Households)	69.344	76.976	76.996	76.866	76.874

As an indicator of product competitiveness, the availability of adequate quantities of production and productivity from the Gayo Highlands over the last ten years has not increased. Product availability is important in the process of competitiveness of a product. The strategies of the government and farmers to respond to the limited coffee production have not increased (Kirom 2017). The strategy for developing coffee products so far has only focused on how Gayo coffee can be seen by the wider community but ignored how to produce sustainable and good quality products of Gayo coffee.

Conclusion

Basically, Gayo coffee, both robusta and arabica types, has had the potential to compete in the global market for the last 10 years, especially the arabica Gayo coffee which has been known worldwide for its quality and different taste compared to other types of arabica coffee from various countries.

In addition, the Gayo region has a large area of upland to cultivate coffee. However, problems arose when the coffee plantations in the Gayo region no longer had good productivity. Data show that the coffee production from this area has not increased in several years, even in a few years the production is far below the expected productivity.

Responding to these problems, the local and central governments and the private sectors took measures to improve coffee production in the Gayo area. However, it cannot be said that they have the potential to increase the Gayo coffee competitiveness based on the competitiveness analysis of Thomas Piketty, who sees the competitiveness of a product in a country through the country's productivity by looking at the level of production and the income index of the actors. The results showed that during the implementation of the strategy, the production value and farmers' income were not included in the competitiveness category. Therefore, the government should be required to further improve the coffee plantation processing industry and techniques to produce good coffee products in terms of quantity and quality.

The strategy to increase the government's competitiveness is also deemed not fully able to fulfil the four factors that determine competitiveness as set by Michael Porter, who states that factors that influence the increase in competitiveness include factor condition, demand condition, related and supporting industries and structural strategy.

Some issues need to be improved such as human resources in processing natural resources in the Gayo area and the limited knowledge of workers in this area regarding important processing technology innovations. The knowledge of renewable technology is expected to improve the productivity of Gayo coffee to meet the needs of domestic and overseas consumers.

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