

CHAPTER I INTRODUCTION

1.1 Research Background

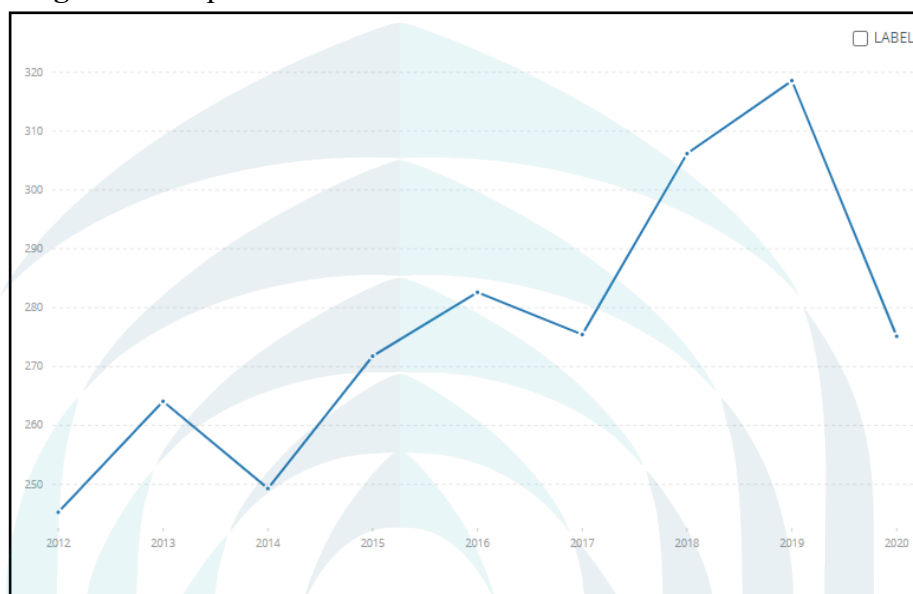
Exporting is one of the activities that is very important for a country's economy. This is because there are two crucial influences generated; *First*, it can encourage sales of local products, so that economic growth and community welfare will increase. *Second*, this activity will also generate foreign exchange for the State to build accessibility and meet other needs.¹ Thus, each country will definitely try to increase the value of exports, which will also greatly affect the international market.

In the international market area, countries in the world have a very important role and exert a lot of great influence, including OIC (Organization of Islamic Cooperation) member countries. This organization is an international organization consisting of 57 member states whose majority population is Muslim, as well as a major organization after the United Nations. OIC member countries have great potential because of their natural wealth, workforce, and market potential.

Because the potential of OIC countries is quite large, export activities have become an important thing that can increase the national income of its members. But along the way, export activities that are carried out do not always increase every time. Some decades even experience a constant decline, resulting in instability in the value of exports at certain times. The evidence of export instability in several OIC countries can be seen in the following table:

¹ Siti Ngatikoh and Isti'anah, "Pengaruh Ekspor Impor Bagi Pertumbuhan Ekonomi dalam Perspektif Islam," *JURNAL LABATILA* 4, No. 01 (2020). p.12

Figure 1.1 Export Growth in the United Arab Emirates in 2012-2020

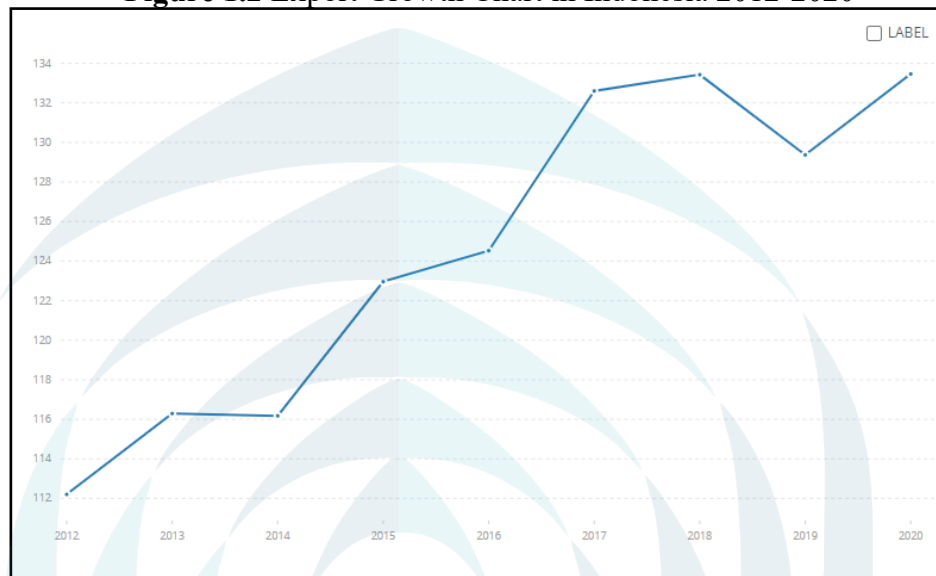


Source : World Bank (data processed)

The first diagram shows the condition of the export value of the United Arab Emirates (UAE) in the last 9 years which has fluctuated significantly. In the 2013 period, the UAE's export value showed significant growth, with an average growth of around 10% per year. However, in 2014, the value of UAE exports decreased by 9.9% due to falling crude oil prices.²

After experiencing a decline in 2014, the value of UAE exports increased again in the following years. In 2019, the UAE's export value reached around 318 billion USD, up about 5.5% compared to the previous year. Despite this, the value of UAE exports dropped drastically to around 275 billion USD in 2020 due to the COVID-19 pandemic. Thus, it can be seen that not always the value of exports in the United Arab Emirates has increased constantly, but sometimes there is also a decrease.

² Utin Anya Bastian, "Pengaruh Perdagangan Bilateral Indonesia dan Uni Emirat Arab Terhadap Pertumbuhan Ekonomi," *Jurnal Muamalat Indonesia - JMI* 2, No. 1 (21 July 2022), p.20.

Figure 1.2 Export Growth Chart in Indonesia 2012-2020

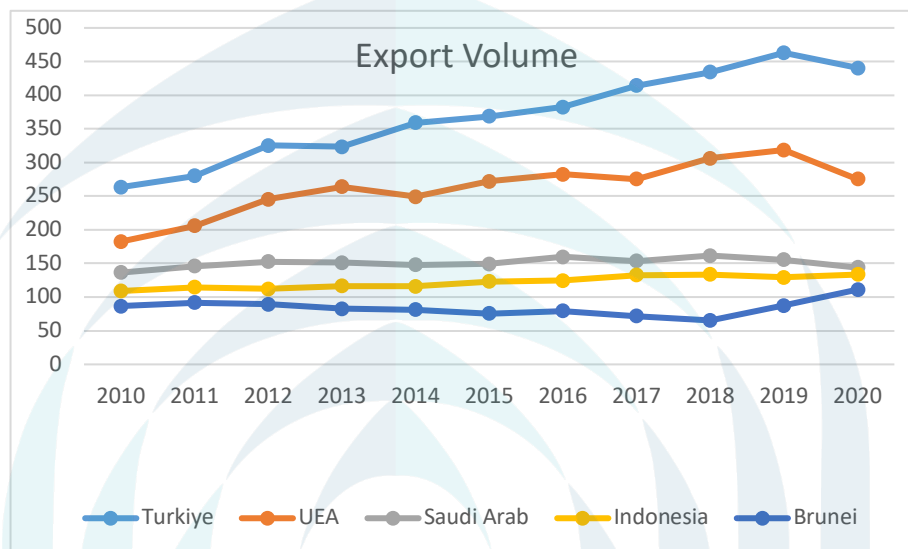
Source : World Bank (data processed)

In the second diagram, the value of Indonesia's exports is shown based on data from the World Bank. In 2012, the resulting export value reached 112.62 billion US dollars and continued to increase every year until it reached its peak in 2018 of 133.14 billion US dollars. However, in 2019, Indonesia's export value fell to 129.39 billion US dollars, while in 2020, Indonesia's export value again rose to 133.9 billion US dollars.³

Despite the decline in 2019 and 2020, Indonesia's export value in the last 9 years has shown a positive trend. During this time, there was growth in a number of export-related businesses, including processing, mining, and agriculture. Indonesia's export products that are most in demand by other countries are oil and gas products, palm oil, and rubber. Thus, Indonesia's export rate became unstable.

³ Indonesia, Website Badan Pusat Statistik. *Hasil survei sosial demografi dampak Covid-19 2020*. Jakarta: Badan Pusat Statistik, 2020.

Figure 1.3 Export growth chart of Turkey, UAE, Saudi Arabia, Indonesia and Brunei in 2010-2020



Source : World Bank (data processed)

The third graph illustrates the broader export value of OIC member countries, namely Turkey, Uni Arab Emirates, Saudi Arabia, Indonesia, and Brunei. In the table, it is clear that the graph of export value in a country can increase and decrease.

The existence of various discrepancies above is certainly caused by several things or other conditions. As a result, it suggests that the idea underlying the research's findings above may not always hold true for all countries worldwide. There are some countries whose overall export value is highly dependent on these three variables, but there are also those that are not too affected, according to the conditions and needs of each country.

Therefore, in this study researchers will examine the significance of inflation, exchange rates, and GDP on export values in 10 OIC member countries. The 10 countries are the United Arab Emirates, Malaysia, Turkey, Saudi Arabia, Indonesia, Iran, Kuwait, Qatar, Kazakhstan, and Iraq. These countries were chosen on the basis of criteria that showed their export value to be higher than that of other OIC members. Thus, the ten countries and other OIC member countries can weigh and find out the significance of the three variables on their export activities. This is certainly very helpful for OIC

Muslim countries to find a focal point, so as to increase export earnings, as well as the welfare of their population.

1.2 Research Questions

1. How does each of exchange rate, inflation rate, and gross domestic product affect the value of exports in OIC member countries?
2. What is the simultaneous effect of exchange rates, inflation rates, and gross domestic product on export values in OIC member countries?

1.3 Research Objectives

1. To identify and examine the effect of respective exchange rates, inflation rates, and gross domestic product on export values in OIC member countries.
2. To identify and examine the simultaneous effect of exchange rates, inflation rates, and gross domestic product on export values in OIC member countries.

1.4 Research Scopes and Limitations

This research has a wide range of topics for discussion. Examples are the influence of exchange rates, inflation, GDP, on exports of OIC member countries, the influence of external factors of OIC countries on exports, OIC country policies in export procurement, and so on. But due to the limited time and place of discussion, the author focuses research on three interesting things to discuss, namely in the scope of inflation, exchange rates, and GDP of OIC countries. The research limitations on the effect of exchange rates, inflation rates, and GDP on the export value of OIC member countries are as follows:

1. **Research Variables:** Independent variables are variables that affect other variables in a study. In this study the independent variables are exchange rate, inflation value, and GDP. A dependent variable is a variable that is influenced by another variable or an independent variable. In this study, the dependent variable is the export value of OIC member countries.

2. **Limitation of the Concept:** In this study, the exchange rate is only measured through the annual average exchange rate, while the value of inflation and GDP is measured through annual figures.
3. **Analysis Limitations:** In data analysis, a stationarity test will be carried out to detect whether panel data is influenced by time or not. Then the t test and f test will be carried out with the help of E-Views software.
4. **Conclusion Limitations:** The conclusions in this study only relate to the influence of the independent variable on the dependent variable and cannot be extended to other variables or show cause-and-effect relationships definitively.

With these limitations, the research will focus on the effect of exchange rates, inflation rates, and GDP on the export value of OIC member countries over a period of time and using available and relevant data sources.

1.5 Research Benefits

The benefits of the influence of exchange rates, inflation rates, and GDP on the export value of OIC member countries are as follows:

1.5.1 Academic Benefits

- 1) Increase the wealth of knowledge and understanding of the effect of exchange rates, inflation, and GDP on the value of exports in OIC member countries.
- 2) Become a reference or reference material for further research related to the same or similar topics.
- 3) Contribute to the development of economics and business, especially in the analysis of factors affecting export value.

1.5.2 Practical Benefits

- 1) Become a guide for decision makers in making policies related to exports in OIC member countries.

- 2) Provide useful information for business people to make business strategies in the face of economic conditions and markets that are up and down or fluctuating.
- 3) Increase public understanding of factors affecting exports, so as to increase public participation in economic development within the country.
- 4) Provide information and guidance to countries in making decisions in matters related to the economy, especially in the field of exports.

