

CHAPTER I

INTRODUCTION

A. Background

Discovery Thailand, the Kingdom in Southeast Asia. It is bordered in west and northwest by Myanmar (Burma), in south by the Andaman sea, in east and north east by Laos PDR, in south east by Cambodia, in south by the gulf of Thailand (an inlet of the South China Sea), and by Malaysia. Adventure Thailand the Land of smiles this is a virtual guide to “Muang Thai” often translated as the “Land of free”, as this call their country. Thai bath is Thailand’s currency.

Rubber was cultivated in Thailand since the 1990s. Thailand became the top producer and exporter of natural rubber in the world since that time. This is because the climatic are practiced in rubber production (Investment, Thailand's Rubber Industry, 2017). Rubber trees are cultivated in monoculture and commercial scale. The latex is produced tremendously and commercially. Most of the rubber plantations are privately owned (Poungchompu S. a., 2015).

Rubber tree is a perennial. It is native to the Amazon basin of Brazil and Peru, South America. The native is called Caoutchouc, meaning "tree cry". Until 1770, Joseph Priscilla found that rubber can be used to remove the pencil, so it is called a rubber eraser or rubber, which is used in England and Holland only in South America. The Para is called the rubber.

Hevea brasiliensis, the rubber tree or Pará rubber tree, is a medium to the large tropical tree in the Euphorbiaceae (spurge family) native to South America (the Brazilian and Bolivian region covering Amazon and Orinoco river basins), which produces a milky sap (latex) that is the primary source of natural rubber. Although some wild-grown trees are still tapped for their sap, most commercial production now comes from rubber tree plantations in southern and southeastern Asia (including Indonesia, Malaysia, and Sri Lanka), as well as western Africa. (life, n.d.).

Rubber is the primary commodity, it is an agricultural commodity that is the raw material that is the basis of industrial production. Currently, most of the manufacturing countries are developing countries such as Thailand, Indonesia, and Malaysia, etc. Which is produced and exported to more industrial countries for use in the country. This is because there is insufficient capacity to produce natural rubber as a finished product. Due to the need of advanced production technology which cannot be invented, it is necessary to import a lot of foreign technology.

Thailand is the number one natural rubber producer in the world, mostly for export. The production volume is about 2.8 million tons per year, which accounts for 90% of total production. The remaining 10% is used as raw material for domestic industry. Major trading partners in the world market are Japan, China, USA, South Korea, and France.

The rubber is important to Thailand economies for some factors as following:

➤ Economic

Rubber helps to restore Thailand's economy as rubber is a major source of income for the country, with an export value being second only to rice and also helping to distribute income to farmers who work in the rubber plantation. More than 6 million people across the country. The farmers have a fixed income. In addition, rubber is a plant that has resulted in regular income throughout the year, thus creating a certain income for rubber growers than other crops.

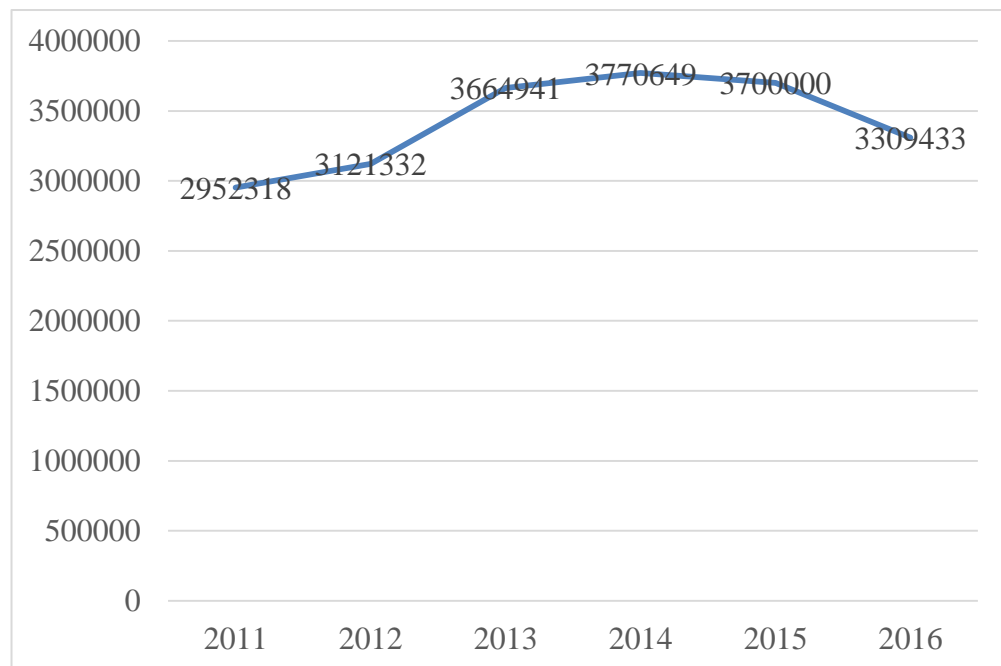
➤ Social

Rubber is a plant that creates income, creates jobs and occupies the countryside. It can help reduce and solve the problem of labor migration from rural to urban society and to strengthen the community to warm the family.

➤ Environment

Rubber is a plant that is more than 20 years old with more than 22 million acres of planted area in all provinces in the south and other sectors. Rubber is a substitute for the reduction of forest and increases the green area of the country. Increase In the rubber plantations, there are also other plants that can be planted together, resulting in greater biodiversity and natural habitat.

Units: Tons



Source: Rubber Research Institute Department of Agricultural

Figure 1.1

Export of Rubber in Thailand 2011 - 2016

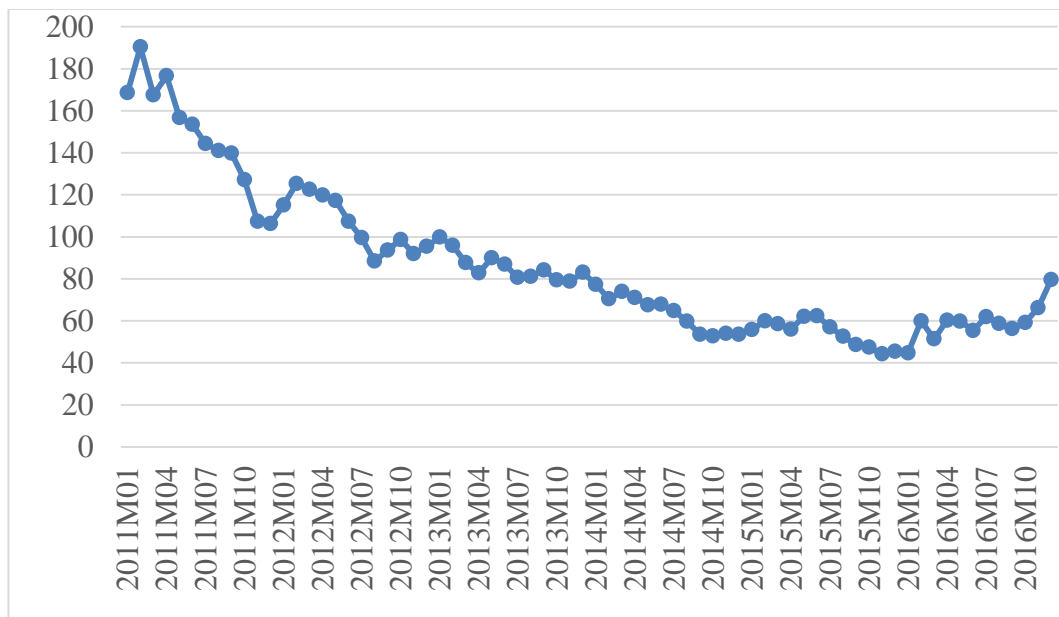
From the table 1.1 above, the volume of rubber exports fluctuates. Although rubber is an important raw material for the industry. However, the volume of exports or demand has changed due to various factors that have contributed to the export of rubber, whether it be competitive with competing countries. In terms of social stratification, such as the rise of the world's industry, demand has increased. The economy is not subsidizing exports from the government. inflation Rubber Price and Foreign Exchange Rates. Thailand's export of rubber is exported using US dollars. Foreign exchange rates in Thailand are constantly changing. And rubber exports of Thailand are also competitive from the competition.

Rubber exports to the country can earn at least a hundred billion dollars, this is to create more income for farmers. However, rubber prices have begun to fluctuate with the global rubber price mechanism. Rubber prices around the world will fall, as with many countries rubber growing, such as Laos, Cambodia, China, Pakistan, Myanmar, etc., will be one of the variables that affect the price of rubber in the downward direction. The domestic rubber processing industry has been growing at a low level. It depends on the export market and is in a disadvantageous country, because of the rising cost of rubber production. In addition, the economic environment, as well as the unbalanced demand and supply of rubber, will be a factor to pressure the price of rubber. In some cases, the price may fluctuate abnormally. However, there is a lack of positive factors to increase the price of rubber in the market price. Foreign and futures markets, in particular, prices of smoked rubber sheet in the futures market rose sharply but returned to the same level in the past. The trend and direction of rubber are uncertain. (Sornlaksab, 2016)

Rubber is the agricultural products that can make incomes for gardeners for a long time. It is widely grown in southern Thailand and is currently grown in almost every part of Thailand. But with the price of rubber down, problems in marketing and use of rubber in the country. The unbalanced supply and demand is the cause of the supply problem, due to overproduction and more competitors and rubber stocks of Thailand. While the demand problem due to less usage. This is due to China, a major

buyer, economic downturn and high global rubber stocks. Domestic consumption also increased at a declining rate.

Units: Bath/Kilogram



Source: Rubber Authority of Thailand

Figure 1.2

The Rubber price in Thailand 2011-2016

From the figure 1.2 above, it can be seen that the Rubber price in Thailand 2011-2016 is decreased from month to month. In February 2011, rubber prices hit a record high of 190.31 baht per kilogram. After that, the trend will continue to decrease until August 2015, rubber price plummeted to 44.19 baht per kilogram. Which is the lowest price in five years and is lower than the cost of production at 64.90 baht per kilogram. Rubber farmers suffered, the major cause of the rubber price is severe, because of The world economy and the Chinese economy slowdown in 2-3 years, the world economy is expanding at a slower pace. In

particular, the G3 economy and the Chinese economy, the world's No. 1 rubber consumer, are the leading tire manufacturers in the world. It is the main export market of Thailand. China's economy has grown at a high level. In the period of 2011 - 2013, demand for rubber increased by 1.9 percent, while rubber production increased by 1.9 percent. The world average grew by 5.1 percent (bangkokbiznews, 2014).

Nowadays, rubber farmers are another group of people who are still facing various problems of quality of life, especially the revenue. The productivity of the occupation depends on the rising prices of raw materials, both domestically and internationally. Rubber prices decline, it has played a vital role in the lives and livelihoods of rubber farmers at no less than 6 million during the last 4-5 years. Government policies have focused on increasing production. Therefore, the government should focus on the problems that affect the quality of life of rubber farmers.

According to Padungseriwit (2010) the research aims to study the factors affecting rubber export volume in Thailand for period January 2000 – December 2009. The factors that led to the study were export prices of Thailand, The exchange rate Thai bath to US dollar, the rubber crop production index, Interest rates on loans to farmers. The result of this research, the factors that affect the export of rubber in Thailand is the rubber crop production index. The relationship in the same direction and meet the hypothesis.

For these reasons, the fluctuation of rubber prices in Thailand is due to various factors. Based on the above description researchers are interested to study the factors that affect the price of rubber (the price of Thailand). It is expected to be beneficial for the development of quality rubber and a database to drive reforms to solve the problem of rubber price stability in the country. Thus, the researcher writes the study with the title of **“Determinants of Rubber Price in Thailand Period 2011-2016”**.

B. Scope and Limitation of the Research

1. This study is limited only about Rubber price (the price of Thailand) and the variables studied including Rubber price (the price of Thailand), Export rubber, Exchange rate Thai Bath to US dollar, and Rubber Production.
2. The data used are annual time series data from 1st January 2011 to 31st December 2016.
3. The research is analyzed using Multiple Linear Regression with OLS method.

C. Formulation of Research Problems

Based on the background, the researcher needs to formulate the problem as the ultimate goals of this research include:

1. How does the influence of export of rubber to Rubber price (the price of Thailand) in the period of 1st January 2011 to 31st December 2016?

2. How does the influence of exchange rate Thai bath to US dollar to Rubber price (the price of Thailand) in the period of 1st January 2011 to 31st December 2016?
3. How does the influence of Rubber Production to Rubber price (the price of Thailand) in the period of 1st January 2011 to 31st December 2016?

D. Research Purpose

Based on the research questions, thus the objectives of this research are:

1. To determine the effect of export of rubber to Rubber price (the price of Thailand) in the period of research.
2. To determine the effect of exchange rate Thai bath to US dollar to Rubber price (the price of Thailand) in the period of research.
3. To determine the effect of Rubber Production to Rubber price (the price of Thailand) in the period of research.

E. Benefits of the Research

1. For researchers, this research can become a vehicle of knowledge and experience in understanding one of the Rubber price (the price of Thailand) that has been studied and compared with the real applications in the field.
2. For academicians, this research can be a source of reading material and references for the reader and gives information about Rubber

price (the price of Thailand) and causal factors. Furthermore, it can be used as a comparison for further research in conducting research with similar titles.

3. For the related institution, this research can be information and expected as a material consideration in determining the policies associated with Rubber price (the price of Thailand).
4. For the general public, this study can be a source of knowledge about the state of Rubber price (the price of Thailand).

F. Research Plan

In order to understand the undergraduate thesis clearly, so the researcher divide the materials into several sub-chapters with systematic writing as follow: Chapter I, Introduction; this chapter describes the research background, Scope and Limitation of the research, Formulation of research problems, Research purpose, benefits of the research, and Research plan. Chapter II, Literature Review; this chapter contains the theory that some expects taken from the book, in the form of understanding and definition. This chapter also explains the basic concepts of Rubber price, Export, Production and Exchange rate. Chapter III, Research Methodology; this chapter contains the definition of variables that used in this research, data and the source, the methodology of Multiple Linear Regression with Ordinary Least Square (OLS). Chapter IV, Result and Discussion; result and analysis; It also contains the result

from the analysis of Multiple Linear Regression with Ordinary Least Square (OLS), the result table and diagram, the analysis of empirical result with the theoretical framework and previous study. Chapter V, Conclusion; this chapter contains of conclusion from research and suggestion for the next research.