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Strategies To Improve the Competitiveness Of Coffee Export Products In The Global Market

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Abstract

Coffee is one of Indonesia's main commodities with the highest export value, playing a significant role in the country's foreign exchange earnings. However, the challenge faced is how Indonesia maintains the development of coffee exports amid increasing competition from other exporting countries. This study aims to analyze the competitiveness of Indonesian coffee in the global market, identify internal and external factors, and formulate strategies to improve the competitiveness of coffee export products. The research method used is descriptive qualitative, with data analysis using Revealed Comparative Advantage (RCA) for the period 2013-2022 and Porter's Diamond analysis for competitive advantage. Export improvement strategies were analyzed using the SWOT method. The results showed that Indonesian coffee has a strong comparative advantage in the global market. Porter's Diamond analysis indicated a competitive advantage by considering internal and external factors. The recommended strategy focuses on the technical and cultivation aspects of coffee commodity development, as well as optimizing the role of supporting institutions.

Keywords: analysis; competitiveness; exports; coffee; strategy

1. Introduction

One of Indonesia's potentials is as an agricultural country with abundant natural resources. This abundant natural wealth is in the form of adequate land area and a suitable climate for farming. Indonesia is also referred to as an agricultural country because many people in Indonesia work in the agricultural sector [1]. The development of Indonesia's agricultural export performance shows good growth, especially in plantation products. One of the main commodities with the highest export value for Indonesia is coffee. The potential of the global coffee market is large with global coffee consumption continuing to increase every year. According to data from the International Coffee Organization (ICO), in 2021/2022, world coffee consumption will reach 167.9 million cantons (60kg/bag). With this huge market potential, improving the competitiveness of Indonesian coffee exports is very important to be able to compete and capture a larger market share. In recent years, the government through the Ministry of Agriculture has conducted a coffee planting movement to increase national coffee production. This is due to the increasing volume of coffee production in countries such as Brazil, Vietnam, and Colombia, which are also the world's largest coffee exporters. In addition, coffee from Honduras, Uganda, and Ethiopia are starting to have their own customers in the global market. Therefore, competition for coffee products is widening and the government is asked to supervise agriculture and plantations, especially coffee so that Indonesian products can better compete in the global market [2]. The purpose of this research is to analyze the level of competitiveness of Indonesian coffee export products in the global market, identify internal and external factors in improving the competitiveness of Indonesian coffee in the global market, and analyze strategies that should be done to improve the competitiveness of Indonesian coffee export products in the global market.

2. Literature Review

2.1 Coffee History

Coffee originates from the African continent, precisely in the mountainous region of Ethiopia. According to legend, a goat herder named Kaldi discovered the coffee plant around 850 AD. He noticed that his goats looked more agile and active after eating the red fruits of this plant [3]. Priests from a monastery then tried brewing and drinking the fruits, and found an invigorating effect. The coffee plant spread to the Arabian Peninsula in the 15th century through traders, where coffee began to be dried, roasted and brewed for consumption. Coffee became popular among Arabs and was often served in coffee shops [4]. In the 16th century, Venetian merchants introduced coffee to Europe, and although initially considered strange and dangerous, coffee became popular, especially after the first coffee shop opened in Venice in 1645 [4].

In the 17th century, the Governor-General of the Dutch East Indies, Hendrik Adriaan van Rheede, brought coffee plants to the Dutch East Indies, first planted in the Bogor Botanical Garden in 1696, and then spread to other regions such as Java, Sumatra, Sulawesi and Bali [5]. Coffee became a major export commodity for the Dutch East Indies, with large-scale plantations established by the colonial government and the private sector through the Cultivation System, where indigenous farmers were required to grow coffee for export to the Netherlands.

2.2 International Trade

International trade is the exchange of goods or services that across national borders. It involves both exports and imports, where one country exports goods and services to another country, while importing goods and services from another country [6]. To regulate international trade, there are global organizations that play an important role. The World Trade Organization (WTO) is the governing body for that facilitates the negotiation and settlement of trade disputes between member countries. With the opening up of international trade, there is increasing global economic integration. Economic globalization, driven by lower costs of transportation and communication costs, as well as the lowering of trade barriers, has created an integrated global market for goods, services, and factors of production [7].

2.3 Competitiveness

The definition of competitiveness put forward by the World Economic Forum is considered as the ability of a country to obtain a sustained high per capita income growth that is high and sustainable. Competitiveness is determined by the competitive advantage of a company and depends on the level of relative resources it has or we can call it competitive advantage. According to [8] The importance of competitiveness is due to by the following three things: (1) Encourage productivity and increase the ability to be independent, (2) Can increase economic capacity, both in the context of the regional economy and the quantity of economic actors so that economic growth increases, (3) Belief that market mechanisms create more efficiency.

2.4 Strategy

The word strategy comes from the Greek “Strategos” (stratos = military and ego = leader) which means “generalship” or something done by war generals who make plans to win wars. This concept is relevant to the situation in ancient times which was often colored by war, where war generals were needed to lead an army. generals were needed to lead an army. According to [9] in the book Strategic Management and Business Policy argue that strategy is a way to achieve long-term goals. Strategy is a potential course of action that requires top management decisions and large company resources. In addition, strategy affects the prosperity of the company in the long term and contains great uncertainty.

3. Research Method

This research is a qualitative study that aims to explore and understand strategies to improve the competitiveness of Indonesian coffee export products. The research is also descriptive, describing the current state of Indonesian coffee competitiveness in the global market. Data collection techniques used primary and secondary data. Primary data in the form of an overview of the national coffee industry was obtained through in-depth interviews (elite interviews) with national coffee experts, namely exporter and owner of PT Aloya Bumi Nusantara, Mr. Lian Purba, and Vice Chairman of the Promotion and Development Compartment of AEKI North Sumatra, Mr. Fadli Hazmi. The selection of resource persons was carried out using purposive sampling method to identify the components of Porter's Diamond and formulate strategies to improve the competitiveness of Indonesian coffee exports. Secondary data were obtained from Statistic Indonesia, Trademap, UN Comtrade, ICO, as well as AEKI reports, previous research, books, journals, and related articles.

The method chosen in the data analysis to analyze coffee competitiveness in the period 2013-2022 using Revealed Comparative Advantage (RCA) and to analyze competitive advantage with Porter's Diamond analysis. Meanwhile, to analyze the strategy to increase coffee exports using SWOT analysis.

3.1 Revealed Comparative Advantage

The competitiveness of a country's export commodities can be analyzed by various methods, one of which is the Revealed Comparative Advantage (RCA). To measure the competitiveness of Indonesian coffee in the global market, the RCA value of export products was used. An RCA value ≥ 1 indicates competitiveness above the world average, while an RCA ≤ 1 indicates competitiveness below the average [10]. The higher the RCA value, the stronger the competitiveness of the commodity, so it is recommended to continue to be developed through specialization. How to calculate RCA is explained by Tambunan [10]:

$$RCA = \frac{X_{ij}/X_{it}}{W_j/W_t}$$

X_{ij} = Export value of commodity i from country j

X_{it} = Total export value from country j

W_j = World export value of commodity i

W_t = Total world export value

3.2 Porter's Diamond Analysis

Porter's Diamond Analysis is used to understand the situation of components such as factor conditions, demand conditions, related and supporting industries, as well as the competitive structure and national coffee strategy, plus the role of government and opportunities that affect the growth of the coffee industry. The identification of these six components was done through literature and interviews with experts who are considered to know the condition of the Indonesian coffee industry, namely Mr. Lian Purba, owner of PT Aloya Bumi Nusantara, and Mr. Fadli Hazmi, Vice Chairman of the Promotion Compartment of AEKI North Sumatra. The components were separated into internal (strengths and weaknesses) and external (opportunities and threats) factors, which were then used in a SWOT Analysis to formulate strategies for improving Indonesia's coffee export competitiveness.

3.3 SWOT Analysis

SWOT is used to strategize a company by matching external opportunities and threats with internal strengths and weaknesses. The initial step is to create an IFAS (Internal Factor Analysis Summary) matrix to assess whether strengths outweigh weaknesses, as well as an EFAS (External Factor Analysis Summary) matrix to see whether stakeholders are able to capitalize on opportunities to face threats. The SWOT matrix develops four strategies: SO (utilizing strengths for opportunities), ST (using strengths to overcome threats), WO (improving weaknesses through opportunities), and WT (reducing weaknesses and avoiding threats). The following are the steps in preparing the SWOT Matrix:

- a. Determine the key internal strength and weakness factors.
- b. Determine the key external opportunity and threat factors.
- c. Determine the strategic strength, weakness, opportunity and threat factors. strategic factors.
- d. Match internal strengths with external opportunities to get the SO Strategy.
- e. Match internal strengths with external threats to get the ST Strategy.
- f. Match internal weaknesses with external opportunities to get the WO Strategy.
- g. Match internal weaknesses with external opportunities to get the WT Strategy.

4. Results and Discussion

4.1 Revealed Comparative Advantage

Based on the RCA estimation, the average RCA value of Indonesian coffee exports in the global market during 2013-2022 showed more than one, indicating strong competitiveness and comparative advantage. The highest RCA value was achieved in 2015 at 4.30, while the lowest in 2022 was 2.09, with an average of 3.29. Although the RCA value is still above one, there has been a decline in the past three years, indicating a reduced comparative advantage. Compared to Colombia (average RCA of 37.21), Brazil (13.44), and Vietnam (7.56), Indonesia's RCA value is the lowest among the four coffee-producing countries, suggesting Indonesian coffee is in demand, but still less competitive.

able 4.1 RCA Value of Coffee Indonesia, Brazil, Vietnam, Colombia 2013-2022

Year	RCA			
	Indonesia	Brazil	Vietnam	Colombia
2013	4,23	13,02	12,73	21,54
2014	3,49	16,19	13,03	27,15
2015	4,30	15,73	8,05	39,01
2016	3,67	13,78	9,05	41,65
2017	3,80	11,46	7,79	36,98
2018	2,87	11,53	7,50	35,38
2019	3,33	12,88	5,31	37,93
2020	2,86	13,61	4,00	46,33
2021	2,25	12,65	3,90	47,96
2022	2,09	13,59	4,23	38,19
Average	3,29	13,44	7,56	37,21

Source: Researcher Processed Data

4.2 Porter's Diamond Analysis

A country's competitive advantage is determined by four main factors: resource factor conditions, demand conditions, related and supporting industries, and corporate strategy, structure and competition. These factors are supported by the role of the government and external opportunities, which together form “The National Diamond” system to enhance competitiveness.

Resource Factor Condition

1. Natural Resources

Indonesia has a tropical climate and rainfall that favor coffee development, but the environmental conditions for Robusta and Arabica are different. Although Robusta plantations are quite large, their productivity is low because most are managed by smallholder plantations that are less intensive in maintenance, rarely conduct plant rejuvenation, and still use simple cultivation technology.

2. Human Resources

Human resources play an important role in supporting Indonesia's coffee competitive advantage, where plantations are dominated by People's Plantations (PR), while the rest are managed by Large State Plantations (PBN) and Large Private Plantations (PBS). Most of the land is managed by smallholders with less than one hectare, leading to fragmentation and hampering production and distribution efficiency. Smallholders often lack the capital, technology and knowledge to optimally manage the land. Weaknesses in farmer organizations also lower the bargaining power of coffee prices. Strengthening farmer groups is needed to improve prices, skills, and access to information, to better capitalize on market opportunities.

3. Science and Technology Resources

Science and technology (S&T) resources in Indonesia's coffee industry aim to increase production capacity, productivity, and added value through innovation. Institutions such as the Coffee and Cocoa Research Center (Puslitkoka) play an important role in research on improved varieties, cultivation techniques, and pest control. Modern technologies, such as coffee bean separating machines and efficient drying systems, have been adopted to improve quality. However, many smallholders do not yet have access to technology due to high costs and limitations in remote areas, so they still use less efficient traditional methods. Lack of coordination between research institutions and lack of funding are also barriers to innovation. Nevertheless, the great potential of Indonesia's coffee industry in the development of science and technology remains, provided that the challenges of access to technology and research coordination can be overcome.

4. Capital Resources

Capital resources are an important factor in the growth of Indonesia's coffee industry, but farmers and coffee processing industry players still face capital constraints. Although the government has offered financing programs such as Kredit Usaha Rakyat (KUR) with low interest rates, these schemes have not fully addressed capital issues. Constraints such as difficult access, complicated requirements, and lack of mentoring make it difficult for farmers to obtain capital. In addition, limited financial

institutions in remote coffee-producing areas also hinder farmers' access to necessary financial services. Thus, capital resources have not fully supported Indonesia's coffee competitiveness.

5. Infrastructure Resources

Infrastructure resources are a key factor in improving the competitiveness of Indonesia's coffee industry, but significant weaknesses remain. Uneven infrastructure in remote areas causes difficulties in coffee distribution and marketing, with poor roads, limited transportation access, and high logistics costs that increase the risk of product damage. Smallholders in these areas also struggle to access wider markets. In addition, many coffee farmers and producers do not have access to modern processing and storage facilities, which results in inconsistent coffee quality and post-harvest yield losses. Low technology adoption is due to a lack of training and technical support for smallholders.

Demand Condition

1. Demand Composition

Diverse demand is one of the important factors in increasing the competitiveness of Indonesian coffee, both in the domestic and international markets. Coffee beans, especially green beans, are widely exported to be further processed by international roasters according to their respective preferences. In the domestic market, high-quality roasted beans are driving the growth of specialty coffee, while ground coffee and kopi tubruk remain popular. Domestic consumers are increasingly seeking quality coffee as incomes and quality consciousness increase. Instant coffee, especially in sachets, as well as ready-to-drink coffee such as bottled and canned coffee, are increasingly in demand due to their convenience. Specialty coffee, including single origin from Gayo, Toraja, and Kintamani, as well as premium Kopi Luwak, are also attracting attention in local and international markets.

2. Total Demand and Growth Pattern

Data from the International Coffee Organization (ICO) shows that global coffee consumption increased by 1%, from 164.2 million bags in 2019 to 166 million bags in 2020/2021, with the highest consumption in Europe (54 million bags) and the Americas (63.53 million bags). Based on the National Socio-Economic Survey (SUSENAS) by Statistics Indonesia, household consumption of ground coffee in Indonesia increased by 1.52% per year during the period 1993-2021.

3. Internationalization of Demand

Most of Indonesia's coffee, especially the Robusta type, is exported to international markets with the main destinations being European countries, the US, India, Japan, and several Asian and African countries. Indonesia is also known as a popular tourist destination due to its cultural diversity and natural wealth. The arrival of foreign tourists opens up opportunities to introduce local coffee products, such as through coffee agritourism in destinations such as Kampoeng Kopi Banaran in Central Java, which helps promote Indonesian coffee and enhance the brand image in the global market.

Related and Supporting Industries

Related industries in the coffee commodity system cover all aspects from raw material procurement to marketing, while supporting industries contribute indirectly. The success of the coffee industry is highly dependent on the availability of superior seeds, which can be obtained from providers such as PT Treno Kenangan in West Nusa Tenggara and the Coffee and Cocoa Research Center (Puslitkoka). For the downstream industry, coffee beans produced from cultivation must meet high quality standards, which are influenced by post-harvest processing technology and methods. Coffee bean processing machines that are widely used in Indonesia, and even exported to Brazil and Vietnam, allow these countries to replicate the Sumatran semi wash process that is famous overseas.

Structure, Competition and Strategy

The structure of Indonesia's coffee industry has unique characteristics, with most production coming from smallholders on islands such as Sumatra, Java, Bali, and Sulawesi. The coffee value chain involves farmers, local collectors, distributors, and exporters, but the long marketing chain results in inefficiencies that hinder industry development. Farmer cooperatives and coffee industry associations play an important role in organizing farmers, while the government also contributes through regulations and support programs. In terms of competition, the coffee industry faces challenges at both the domestic and global levels, competing with major countries such as Brazil, Vietnam, Colombia, and Ethiopia, not only in production volume but also product differentiation.

Government Role

The Indonesian government's efforts to improve domestic coffee competitiveness began with the establishment of a national standardization system in 1975 through Minister of Trade Decree No. 266/KP/X/76, which divided coffee bean quality into grades 1, 2, 3, and 4 for dry and wet processing. In addition, the government actively promotes Indonesian coffee through participation in international exhibitions such as SCAA Expo and World of Coffee, and organizes the Nusantara Coffee Festival, which helps exporters find overseas buyers. In 2022, Indonesia signed the International Coffee Agreement (ICA), a multilateral agreement

between coffee producing and consuming countries, which is expected to increase national coffee exports, maintain world coffee price stability, and improve the welfare of coffee farmers in Indonesia.

Role of Opportunity

The role of opportunity in improving the competitiveness of Indonesian coffee is beyond the control of stakeholders, but needs to be considered as a strategy. Changes in trade patterns and free trade agreements signed by Indonesia, such as the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA), which took effect in 2020, has eliminated import duties for Indonesian coffee to Australia, and the Regional Comprehensive Economic Partnership (RCEP) agreement involving ASEAN and five trading partners, have the potential to expand Indonesia's coffee market access in the Asia-Pacific region. As the fourth largest coffee producer in the world, Indonesia has the opportunity to target new markets, including specialty coffee exports.

4.3 SWOT Analysis

In formulating strategies to improve the competitiveness of Indonesian coffee export products in the global market, SWOT analysis was used to identify four main factors: strengths, weaknesses, opportunities, and threats of the Indonesian coffee industry. These points were derived from an analysis of competitive advantage using Porter's Diamond approach and comparative advantage. The first step was to categorize the information into two categories: internal and external. Next, strengths and weaknesses from the internal sphere, and opportunities and threats from the external sphere were identified. The next step was to analyze the influence of each SWOT factor on the condition of the Indonesian coffee industry through the IFAS (Internal Factors Analysis Summary) and EFAS (External Factors Analysis Summary) matrices, which were obtained from expert assessments through questionnaires. The average value of all expert assessments was used to construct this matrix.

Table 4.2 IFAS Matrix

No	Internal Strategic Factors	Weight	Rating	Score
Strengths				
1	Indonesia's geographical conditions are very supportive of coffee commodity development	0,208	3,5	0,729
2	There is training, research on superior seeds, and the release of superior varieties	0,167	4	0,667
3	Distinctive flavors and many types of coffee from various regions with unique flavor profiles	0,208	3,5	0,729
4	Ease of obtaining superior seeds	0,146	3,5	0,51
5	International recognition of local coffee processing	0,146	4	0,583
6	National standardization system in place	0,125	3,5	0,438
TOTAL STRENGTHS		1		3,656
Weaknesses				
7	Decline in coffee plantation land area	0,195	1,5	0,293
8	Ownership is generally small-scale smallholder plantations	0,172	1,5	0,259
9	Low level of knowledge and use of technology by coffee farmers	0,174	1	0,174
10	Access to capital in the coffee plantation business is still limited	0,174	1,5	0,261
11	Limited transportation access in coffee producing areas	0,11	2	0,22
12	Long and inefficient marketing chain	0,174	1,5	0,261
TOTAL WEAKNESSES		1		1,468
TOTAL INTERNAL FACTORS (X-axis = Strengths-Weaknesses)				2,188

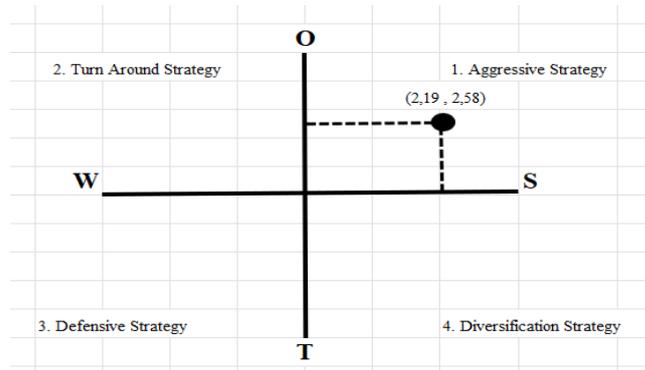
Source: Researcher Processed Data

Table 4.3 EFAS Matrix

No	External Strategic Factors	Weight	Rating	Score
Opportunities				
1	Increased global coffee consumption	0,251	4	1,004
2	There is development of coffee agrotourism	0,148	3,5	0,518
3	There are supporting institutions for the coffee industry such as Puslitkoka	0,177	4	0,708
4	Opportunity to expand international buyer networks through exhibitions	0,198	4	0,792
5	Free trade	0,227	3,5	0,795
TOTAL OPPORTUNITIES		1		3,817
Threats				
6	Unpredictable weather conditions	0,472	1,5	0,708
7	There is competition with major coffee producing countries in the global market	0,528	1	0,528
TOTAL THREATS		1		1,236
TOTAL EXTERNAL FACTORS (Y-Axis = Opportunities-Threats)				2,581

Source: Researcher Processed Data

To determine the strategic position for improving Indonesia's coffee export competitiveness, coordinate points are calculated from internal and external factors. The horizontal axis (X) representing internal factors (strengths and weaknesses) results in the



X coordinate: $3,656 - 1,468 = 2,188$. The vertical axis (Y) representing external factors (opportunities and threats) results in the Y coordinate: $3,817 - 1,236 = 2,581$.

Figure 4.1 SWOT Diagram of Indonesian Coffee Industry Source: Rangkuti (2006) (Reworked)

Based on the SWOT diagram, the Indonesian coffee industry is in the first quadrant, according to [11] indicating a very favorable situation. With existing strengths and opportunities, the Indonesian coffee industry can take advantage of these opportunities. The right strategy is to support aggressive growth, so the S-O (Strength-Opportunity) strategy is the best choice to improve Indonesia's coffee competitiveness. Strategies to improve the competitiveness of Indonesian coffee exports were formulated using the SWOT Matrix, which resulted in several alternative strategies to develop and improve the competitiveness of Indonesian coffee in the global market.

Table 4.4 Indonesian Coffee Industry SWOT Matrix

	Strength-S	Weaknesses-W
Internal	<ol style="list-style-type: none"> Indonesia's geographical conditions are very supportive of coffee commodity development There is training, research on superior seeds, and the release of superior varieties Distinctive flavors and many types of coffee from various regions with unique flavor profiles Ease of obtaining superior seeds International recognition of local coffee processing National standardization system in place 	<ol style="list-style-type: none"> Decline in coffee plantation land area Ownership is generally small-scale smallholder plantations Low level of knowledge and use of technology by coffee farmers Access to capital in the coffee plantation business is still limited Limited transportation access in coffee producing areas Long and inefficient marketing chain
Eksternal	<p>Opportunities-O</p> <ol style="list-style-type: none"> Increased global coffee consumption There is development of coffee agrotourism There are supporting institutions for the coffee industry such as Puslitkoka Opportunity to expand international buyer networks through exhibitions Free trade <p>(Threats-T)</p> <ol style="list-style-type: none"> Unpredictable weather conditions There is competition with major coffee producing countries in the global market 	<p>S-O Strategy</p> <ol style="list-style-type: none"> Optimizing coffee development in strategic geographic areas (S1, O1, O2) Diversification of value-added coffee products (S3, S5, O1, O4) Collaboration with supporting institutions to increase coffee production and quality (S2, S4, O3, O5) Export market expansion through exhibitions and free trade (S3, S5, O4, O5) Optimization of coffee production (S1, S2, S3, O1, O5) <p>S-T Strategy</p> <ol style="list-style-type: none"> Development of weather-resistant and high-quality coffee varieties to overcome global competition (S1, S2, S3, S4, S5, S6, T1, T2) Improving product standards and quality to face global competition (S5, S6, T2) <p>W-O Strategy</p> <ol style="list-style-type: none"> Improving farmers' knowledge and use of technology through training and research (W3, O3) Improving infrastructure and access to transportation through collaboration with the public and private sectors (W5, O2, O4) Strengthening farmer cooperatives to increase scale and access to capital (W2, W4, W6, O3, O5) <p>W-T Strategy</p> <ol style="list-style-type: none"> Create climate mitigation and adaptation programs to reduce the impact of extreme weather (W1, W3, T1) Coffee processing technology subsidy program to increase the competitiveness of small farmers (W2, W3, W4, W6, T2)

Source: Researcher Processed Data

5. Conclusions

Based on the results of research and discussion that has been done, the following conclusion can be drawn as follows:

1. Research using the Revealed Comparative Advantage (RCA) method shows that Indonesia's coffee competitiveness in the global market is relatively strong, with the RCA value of Indonesian coffee exports during 2013-2022 more than one, which means it has a comparative advantage.
2. Strategies to improve Indonesia's coffee competitiveness in the global market require a comprehensive approach, taking into account both internal and external factors. The main strengths of Indonesian coffee are favorable geographical conditions and unique flavors, while the main weakness is the low mastery of technology by farmers. The main opportunity is the increase in global coffee consumption, and the main threat is competition with large producers in the global market.
3. Based on the SWOT matrix analysis, the most appropriate strategy to improve the competitiveness of Indonesian coffee export products in the global market is the S-O (Strength-Opportunity) strategy, which produces several strategies to improve the competitiveness of Indonesian coffee exports, namely:
 - Optimizing coffee development in strategic geographical areas
 - Diversification of value-added coffee products
 - Collaboration with supporting institutions to increase coffee production and quality
 - Export market expansion through exhibitions and free trade
 - Optimization of coffee production

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