

Analysis of the Development of Indonesian Palm Oil (cpo) Export Before and After Traders of the United States of America-China

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ABSTRACT

The United States-China trade war has an impact on the current account balance and trade balance. The US-China trade war also caused a decline in the price of CPO, which resulted in a decrease in the number of palm oil exports. The existence of Indonesia's RED policy has experienced a decline in CPO exports to European Union countries. The purpose of this research is to analyze the development of production, volume and export value of Indonesian CPO and to find out which countries are the largest export destinations for Indonesian CPO. This study uses a descriptive approach, which analyzes the development of Indonesian Palm Oil (CPO) exports before and after the United States-China trade war. The data source comes from BPS (Central Bureau of Statistics) in the form of secondary data from 2013-2019. Judging from the area of Indonesian palm oil has an increasing trend from 2013-2019 except in 2016 which decreased by 0.06 million hectares compared to 2015. CPO production every year from 2013 to 2019 has increased. The volume of palm oil exports from 2013 to 2019 experienced increased fluctuation except in 2016 where the export volume decreased by -14%. The countries that are the biggest export destinations for Indonesian CPO are India, China, the Netherlands, Pakistan, Italy, Singapore, Bangladesh, Egypt, Spain, and the United States. The volume of palm oil exports from 2013 to 2019 experienced increased fluctuation except in 2016 where the export volume decreased by -14%. The countries that are the biggest export destinations for Indonesian CPO are India, China, the Netherlands, Pakistan, Italy, Singapore, Bangladesh, Egypt, Spain, and the United States. The volume of palm oil exports from 2013 to 2019 experienced increased fluctuation except in 2016 where the export volume decreased by -14%. The countries that are the biggest export destinations for Indonesian CPO are India, China, the Netherlands, Pakistan, Italy, Singapore, Bangladesh, Egypt, Spain, and the United States.

Keywords : CPO exports, America-China trade war.

INTRODUCTION

Trump officially declared a trade war by raising high tariffs on a number of imported products from China, especially steel and aluminum which began in early March 2018, this will certainly affect the world economy, including Indonesia. As is known, Trump has announced the application of import tariffs from China worth 50 billion US dollars and will carry out the plan to limit investment in the technology industry by China right on March 22, 2018. The United States-China trade war is a policy that until now has involved two superpowers that have a major influence on the global economy. This trade war will have an impact and influence globally, including on the condition of Indonesia as a developing country, considering that the two big countries are partners in carrying out various forms of cooperation. The trade war caused by the economic policies of the two

countries of the United States and China can have implications for the global economy, including Indonesia (Adirini Pujayanti, 2018).

Trade wars will indirectly affect export and import performance and can have a negative impact on the global economy. One of the countries affected by the trade war between the United States and China is Indonesia. The decline in Indonesia's economic growth rate in the second quarter of 2019 was caused by several things, such as palm oil exports, where palm oil is the leading product from Indonesia. This decline is very clear compared to last year where palm oil exports decreased by 17 percent. This happens because in some countries a very strict policy is in the interests of their country. For example, for example, the US has increased the import duty for biodiesel products. In addition, the obstruction of Indonesian metal exports also affects the decline in Indonesia's economic growth rate.

The imposition of import tariffs has a negative impact on global trade performance. World trade volume weakened significantly and even grew negatively in response to the disruption of global supply chains. The trade conflict that has intensified amidst high uncertainty has risen sharply, affecting business and consumer sentiment. This dynamic has caused investment and consumption activities to weaken further. The decline in export, investment and consumption performance resulted in the economies of most countries in the world, including Indonesia, to grow below expectations. One of the strong trade conditions in the country can be seen in the condition of the trade balance. The trade balance of a country involves the components of exports and imports from one country to another where in the trade balance we can find out whether the amount of exports from one country to another is greater than the amount of imports and vice versa.



Figure 1. Indonesia Trade Balance 2017-2018 (in billion US \$)

Based on a report from the Central Statistics Agency (BPS), Indonesia's trade balance in 2018 recorded a deficit of US \$ 8.56 billion. This deficit record is the largest in Indonesia's history. The trade balance deficit occurred in 2014 amounting to US \$ 2.20

billion, then 2013 with US \$ 4.08 billion, and 2012 with US \$ 2.11 billion and US \$ 391 million in 1975. The trade balance deficit in 2018 was mostly contributed by the oil and gas sector which recorded a deficit of US \$ 12.4 billion or grew from 2017 of US \$ 8.57 billion. Last year's oil and gas deficit was mainly driven by a deficit of US \$ 4.04 billion in crude oil and US \$ 15.95 billion of oil output. Meanwhile, the decline in the performance of the oil and gas sector failed to be supported by the non-oil and gas performance which only recorded a surplus of US \$ 3.83 billion in 2018. The sector's achievements fell sharply from 2017 amounting to US \$ 20.41 billion.

Based on Figure 2, it can be seen that Indonesia's current account has fluctuated during the period 1990-2019. Indonesia experienced the highest current account surplus in 2006 with a value of US \$ 10.86 billion. Meanwhile, Indonesia experienced the lowest current account deficit in 2018 with a value of -31.05 billion US \$. In 2019, Indonesia's current account deficit improved amid the trade war between the United States and China, from US \$ 31.05 billion to US \$ 30.41 billion. The current account deficit in Indonesia indicates that Indonesia's export performance is lower than its import performance. Meanwhile, the current account surplus in Indonesia shows that Indonesia's export performance is higher than that of imports.

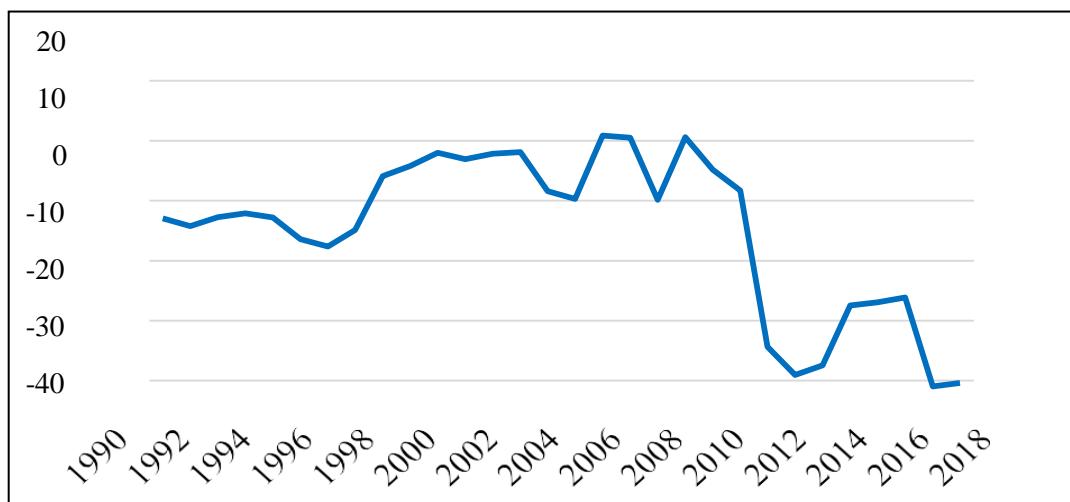


Figure 2. Indonesia's Current Account Balance for 1990-2019 (in billion US \$)

The ups and downs of the world's major commodity prices will also have an impact on a country's current account balance. These commodities include crude oil (crude proteleun oil) and palm oil (crude palm oil). For countries that routinely import crude oil such as Indonesia, the increase in world crude oil prices will cause the current account to experience a deficit because the import burden is greater than the export burden. On the other hand, for the largest palm oil exporting country such as Indonesia, when the price of palm oil increases it will cause the current account to experience a surplus because the value of exports is higher than the value of imports (Noviantoro, 2017).



Source: Central Statistics Agency (BPS), 2019

Figure 2. Development of Palm Oil Export Value and Volume, 2015-2019



Figure 3. Development of Indonesian Palm Oil Exports in 2019-2020

Total palm oil exports in the last four years have tended to increase, except in 2016 which experienced a decline. The largest increase in palm oil exports occurred in 2017 with an export volume of 29.07 million tons, an increase of 19.44 percent compared to 2016. The increase in export volume was not accompanied by an increase in export value. The export value of palm oil actually decreased by 12.03 percent in 2018 compared to 2017 and 12.32 percent in 2019 compared to 2018. Based on the publication of the World Bank Commodities Price Data (The Pink Sheet) released on November 3, 2020, it was recorded as average. -The average price of palm oil on the world market tends to decline. In 2017, the average palm oil price was recorded at 751 ** US \$ / mt.

Palm oil is one of the important commodities that can affect Indonesia's export trade activities. Palm oil is Indonesia's largest commodity when it comes to non-oil and gas exports, and China is the largest export destination country. The trade war caused a

decrease in the number of palm oil exports which led to a decline in the price of CPO commodities during the first 6 months of 2019, namely by 11.08%, where CPO reached its lowest price at RM 1,951 per metric ton at the end of semester I-2019.

Palm oil or crude palm oil (CPO) is one of the main and potential commodities in Indonesia's export activities that can reduce poverty and create new jobs. One of the CPO products is biodiesel which is an alternative energy substitute for petroleum. CPO has a high amount of demand or consumption in the world because it is cheap, easy to produce and very stable and can be processed into other useful derivative products. CPO products as vegetable oil with high competitiveness have a fairly competitive export market share for exporting countries. Based on several main CPO producing countries, Indonesia and Malaysia in total produce around 85-90% of the total CPO production in the world (Association of Palm Oil Entrepreneurs, 2017). This shows the strong competition in CPO exports between Indonesia and Malaysia for potential importers. However, some data show Indonesia's existence as a major producer and exporter of CPO which has the second largest share of CPO exports after Malaysia (Siahaan & Daulay, 2013).

The decline in the performance of Indonesia's CPO exports to the main destination countries has an underlying issue, especially in European Union countries. The European Union has a strong bargaining position to conduct a black campaign on Indonesian CPO products because it assumes that these products cause environmental deforestation issues. The issue of environmental deforestation is closely related to the Renewable Energy Directived (RED) policy which will gradually cut trade relations between the European Union and Indonesia. The RED policy was issued in 2003 by the European Parliament as the first biofuel policy to replace fossil energy with renewable energy in line with the Kyoto Protocol (Adharsyah, 2019). Initially, this policy did not significantly affect Indonesia's export performance due to the high demand and consumption of the European Union for CPO commodities, which made the policy non-binding.

The RED policy has undergone several years of revision and there have been new target adjustments until it has undergone binding reforms with the issuance of the draft policy "Delegated Regulation Supplementing Directive of the EU Renewable Energy Directive II" or better known as RED II policy (European Parliament, 2017). This policy contains the imposition of an anti-subsidized import duty (BMAS) on Indonesian biodiesel products by 8-18% and the European Union will reduce the purchase of palm oil gradually to 0% by 2030 (Eddifa & et al, 2019).

The European Union issued this policy because it assumed that Indonesia's oil palm plantations could cause forest fires, increase carbon emissions, deforestation and threaten the habitat of orangutans. In addition, this RED policy is also an effort to protect and improve the competitiveness of domestic vegetable oils, especially soybean oil, rapeseed oil and sunflower oil, which are the dominant commodities in the source of vegetable oil in the European Union considering these commodities are classified as thin markets on the global market.

Based on the RED policy, the Central Statistics Agency (BPS) reported a decline in Indonesia's CPO exports to countries in the European Union region. Overall, total CPO exports to European Union countries from 2018 to 2019 showed a contraction of 15.86% from US \$ 2.15 billion to US \$ 1.81 billion. This can be specified, namely Italy fell 19.39%

from US \$ 494.5 million to US \$ 398.6 million, the Netherlands decreased 16.73% from US \$ 974.9 million to US \$ 811.9 million, and Germany decreased 12.81% from US \$ 659.2 million to US \$ 574.8 million (Indonesia Eximbank, 2018).

LITERATURE REVIEW

Definition of Export

Exports are international trade activities that provide incentives to grow domestic demand that lead to the growth of large industries, factories, together with an unstable political structure and flexible social institutions. In other words, exports reflect trade activities between nations that can provide a boost to the dynamics of international trade growth, so that a developing country is likely to achieve economic progress on a par with more developed countries (MP Todaro, 2004). Deliarnov (1995) adds that exports are an excess of domestic production which is then marketed abroad.

Export activities are the most important thing and even get the main attention in economic activities considering their very large role in supporting any development program implemented, namely as a driver of economic activity and development. An urgent reason why a country needs to promote exports is to increase the wealth of the country which means increasing the per capita income of the community (Sri Endang Rahayu, 2018).

International trade

International trade is trade carried out by residents of a country with residents of other countries on the basis of mutual agreement (Sri Endang Rahayu, 2015). Every country is involved in international trade, because with this trade a country can meet the needs of its people, besides that with this trade the prosperity of a country can increase. This trade includes sending and receiving goods from one country to another. The reasons for the occurrence of trade between countries (abroad) are (Sri Endang Rahayu, 2015):

- a. Obtaining goods that are not produced domestically (own country)
 - Because every country cannot produce all the goods / services it needs
 - Because these countries both need each other
 - Because HR and SDA are different from each other
- b. Expanding the market and importing modern technology
 - To expand the market for goods that cannot be increased in sales at home.
 - To import more modern industrial machines and better technical and management knowledge
- c. Benefit from specialization

To get profit from goods that are both produced by countries that conduct trade. Due to cost considerations and the use of more expensive or cheap labor, large or small, the two countries will specialize in determining which goods are exported and imported.

Palm Oil (CPO)

Oil palm is a type of palm plant whose main processed product is Crude Palm Oil

(CPO) which has good market potential, both nationally and abroad (exports). World palm oil production is not only used to meet consumption needs, but has also been further processed into one of the environmentally friendly alternative fuels for automotive, called biodiesel. Currently, the Palm Oil Research Center (PPKS) has succeeded in developing Palm biodiesel from crude palm oil (CPO). Apart from that, research institutions and state-owned enterprises have also carried out similar activities (further processing of palm oil / CPO). Even though, It is noted that the largest export of processed products from palm oil is CPO and most of this export (60%) returns to Indonesia in the form of further processed products, such as cosmetics. This shows that in the framework of the management system for the interaction of the innovation process, there is no visible role of research and development (R & D) to support the palm oil processing industry or the industry has not been able to absorb existing R&D results (Sri Endang Rahayu, 2018).

Oil palm as a crop of palm oil and palm kernel is one of the prima donna of plantation crops which is a source of non-oil and gas foreign exchange earners for Indonesia. The bright prospect of the palm oil commodity in the world vegetable oil trade has prompted the Indonesian government to spur the development of oil palm plantation areas. Oil palm plantations in Indonesia are now one of the largest export commodities in Indonesia, even in the Riau area, currently serving as the exporting port of CPO in Dumai City and even the largest CPO exporter in Indonesia (Maskur, 2013).

Trade War

A trade war is when a country imposes tariffs or import quotas and foreign countries retaliate with similar forms of trade protectionism. As wars escalated, trade wars reduced international trade. A trade war begins when a country tries to protect its domestic industry and create jobs (Amadeo, 2019). Trade wars are caused by protectionist policies, which are usually enforced by a country to protect local producers, to return jobs from abroad, or the perception that trade practices in other countries are unfair and need to be balanced with tariffs. A trade war can start if one country considers another country's trade practices to be unfair, and they feel threatened, so that as self-protectionism, the country imposes or increases tariffs. This is done by the state as the manifestation of the state for its national interests (Investopedia, 2019).

Trade wars are not a recent phenomenon. According to Arif Gunawan (2019), trade wars have occurred since the past, for example in 1930 when the United States implemented a policy of increasing tariffs for agricultural and livestock products from Europe, known as "the Smoot-Hawley Tariff Act". Ironically, this policy had a "boomerang" effect for the United States where they not only met with counter-resistance from Europe but their trade was attacked by the whole country. This is because the protectionist policies of the United States have resulted in a decline in world economic activity which has resulted in a global recession.

METHODS

This study uses a descriptive approach, which analyzes the development of Indonesian Palm Oil (CPO) exports before and after the United States-China trade war. The data source comes from BPS (Central Bureau of Statistics) in the form of secondary

data from 2013-2019.

DISCUSSION

Development of Indonesian Palm Oil (CPO) Production

Judging from the area of Indonesian palm oil has an increasing trend where in 2013 the area was 10.46 million hectares and increased until 2019 to 14.59 million hectares, except in 2016 which decreased by 0.06 million hectares compared to 2015. Annual CPO production from 2013 to 2019 has increased, where in 2013 CPO production of 27.78 million tons continued to increase until 2019 which reached 48.41 million tons of CPO.

The largest CPO production from 2013 to 2018 came from Riau Province. Where production continues to increase until 2018 where production reaches 8.49 million tons. For the second largest producer comes from North Sumatra Province where production fluctuates and increases until 2019 amounting to 5.74 million tons.

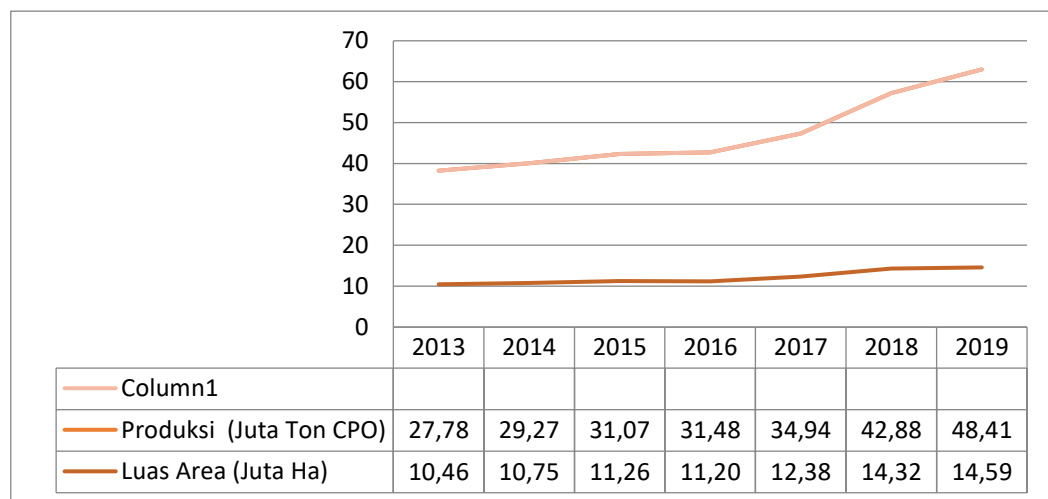


Figure 4. Development of Area and Production of Indonesian Oil Palm Plantations, 2013-2019

Development of Indonesian CPO Export Volume and Value

Table 1. Development of Palm Oil Export Volume and Value, 2013-2019

Year	Export Volume (000 Tons)	Export Volume Growth (%)	Export Value (000 US \$)	Export Value Growth (%)
2013	20 577 976	-	15 838 850	-
2014	22 892 224	11	17 464 754	10.27
2015	26 467 564	15.62	15 385 275	-11.91
2016	22 761 814	-14.00	14 366 754	-6.62
2017	27 353 337	20.17	18 513 121	28.86
2018	27 898 875	1.99	16 530 212	-11.99
2019	28 279 350	1.36	14 716 238	-10.97

Most of Indonesia's palm oil production is exported abroad and the rest is marketed domestically. It can be seen in table 1, the volume of palm oil exports from 2013 to 2019 experienced increased fluctuations except in 2016 where the export volume decreased by - 14% to 22.76 million tons where in the previous year 2015 the export volume was 26, 47 million tons. The largest increase in Indonesia's CPO export volume occurred in 2017, amounting to 20.17%. When viewed from the export value of CPO, the growth in export value has decreased except in 2014 the growth was 10.27% and in 2017 the growth was 28.86%. The growth in export value was due to lower CPO prices in the international market.

Countries that are the Destination of Indonesia's CPO Exports

The countries that are the biggest export destinations for Indonesian CPO are India, China, the Netherlands, Pakistan, Italy, Singapore, Bangladesh, Egypt, Spain and the United States. The five countries that are the destinations for Indonesia's CPO exports are India, China, Pakistan, Italy and the Netherlands. These five countries are the largest export destination countries for Indonesian CPO for each year, then followed by the five export destination countries for Indonesian CPO, namely Bangladesh, Egypt, Spain, Singapore and the United States.

Table 2. Palm Oil Exports by Destination Country 2013-2015

Country of destination	2013		2014		2015	
	Volume (Ton)	Value (000 US \$)	Volume (Ton)	Value (000 US \$)	Volume (Ton)	Value (000 US \$)
India	5752.4	4375.4	4920.4	3694.3	5746.0	3224.3
China	2623.7	2005.7	2649.2	2098.9	4105.2	2451.7
Pakistan	1089.2	821.7	1826.8	1366.5	2325.6	1319.9
Italy	1024.8	791.2	1356.8	1034.3	1261.9	735.9
Netherlands	1546.8	1178.9	1294.1	989.8	1193.6	709.3
Bangladesh	656.4	502.6	1048.6	801.9	1134.8	674.7
Egypt	746.4	573.0	1038.1	801.9	1156.8	688.8
Spanish	620.8	469.1	907.0	677.2	998.9	573.4
Singapore	844.0	650.2	789.6	603.6	782.0	436.7
United States of America	463.0	352.6	491.8	393.8	732.7	456.8

Table 3. Palm Oil Exports by Destination Countries 2016-2019

Country of destination	2016		2017		2018		2019	
	Volume (Ton)	Value (000 US \$)	Volume (Ton)	Value (000 US \$)	Volume (Ton)	Value (000 US \$)	Volume (Ton)	Value (000 US \$)
India	5424.6	3449.5	7325.1	4901.2	6346.2	3561.5	4576.6	2252.0
China	3111.8	2190.2	3601.1	2651.8	4166.5	2637.6	5791.1	3019.7
Pakistan	2193.8	1301.6	2193.8	1474.7	2458.5	1445.7	2215.9	1169.1
Italy	913.9	553.7	1066.5	708.2	888.9	544.8	751.3	410.2
Netherlands	1048.5	742.3	1286.4	936.6	1161.1	711.6	914.9	480.2
Bangladesh	926.1	576.2	1231.4	827.0	1402.3	846.7	1351.5	705.2

Egypt	999.2	688.8	1201.4	843.8	936.9	577.7	1 095.1	581.1
Spanish	1116.1	695.9	1367.9	930.0	1168.6	718.7	1 078.8	572.0
Singapore	718.7	449.0	610.8	403.2	424.5	240.1	580.3	274.7
United States of America	955.8	699.1	1153.4	938.7	1112.8	756.8	1 189.0	658.6

From 2013 to 2018, India became the first CPO export destination country in Indonesia, followed by China and Pakistan. In 2019 China became the first largest CPO export destination in Indonesia, namely its export volume of 5.791 million tons, where the export value was US \$ 3.019 billion, and was followed by India and Pakistan.

CONCLUSION

1. In this trade war, the United States and China respectively issued policies to increase import tariffs imposed on certain goods entering the territory between the two countries.
2. With the trade war affecting the production and export of Indonesian palm oil (CPO) and the RED policy made by the European Union, the decline in exports to that country.
3. The development of Indonesian CPO production from 2013 to 2019 has increased, except in 2016, the decline in CPO production occurred due to weather factors due to the occurrence of El Nino that occurred in Indonesia with a long period of time.
4. Riau Province is Indonesia's largest CPO producer.
5. In 2016, the export volume experienced a decline in exports due to weakening global market demand in almost all export destination countries.
6. The decline in the value of CPO exports from 2018 to 2019 was due to the trade war between the US and the PRC.
7. India is the largest importer of Indonesian CPO.

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