

## CHAPTER I INTRODUCTIONS

This chapter will introduce the thesis with the title Indonesia strategy in maintaining the value of palm oil during covid-19. In this chapter there are several parts to explain. The chapter consist of the background, research question, theoretical framework, research method, hypothesis, research scope, and writing system.

### **A. Background**

There are many opinions on where the palm oil or in Latin, *Elaeis Guineesis Jack*, plant comes from. There are allegations that this plant came from 2 places, namely South America and Africa (Guinea). However, this difference in place also makes these plants have different species. In South America, this plant has a species of *Elias Melanococoa* or Elias Olivera, while in Africa (Guinea), it has a species of *Elaeis Genesis*. Palm oil is commonly found in countries with tropical forests, such as Cameroon, Ivory Coast, Ghana, Liberia, Nigeria, Sierra Leone, Togo, Angola, and Congo. This plant is usually used for cooking and ingredients for the beauty of the local population. In addition, palm oil can also be processed into vegetable oil. The result of the palm oil process produces two types of oil. First, the oil that comes from the fruit flesh (*mesocarp*) is yellowish red or Crude Palm Oil (CPO). Second, the oil derived from palm kernel oil that is colorless is known as palm kernel oil. Palm oil is high in carotenoid oil. *Carotenoids* are pigments that produce a red color.

Palm oil as a source of vegetable oil plays an essential role in the country's economy. Oil palm cultivation is generally carried out in countries with tropical climates that have high rainfall (minimum of 1,600 mm/year). The development of the palm oil industry in tropical countries has been driven by very high productivity potential. This is because oil palm provides the highest oil yield per unit area compared to other crops. As part of the vegetable oil consumed by the global community, palm oil is the only solution for the world's

ever-increasing demand for vegetable oil. This is because the average productivity of palm oils much higher than other vegetable oils. In addition, the price is relatively economical and can be used for food-based raw materials, raw materials for the oleochemical industry, and biodiesel raw materials. According to Oil World data in 2013, the average palm oil production was recorded at 3.8 tons of CPO/ha/year, far from soybeans which were only around 0.36 tons/ha, sunflowers amounting to 0.42 tons/ha, and canola around 0.59 ton/ha. With this high productivity, palm oil has supplied more than 50% of the world's vegetable oil needs, so palm oil has now become a popular commodity in the world. The existence of palm oil is increasingly sought after and hunted in the global market.

The first oil palms entered Indonesia in 1848, brought from Mauritius Amsterdam by a Dutch citizen. Two oil palm seedlings from these two places each year were also planted in the Bogor Botanical Gardens. Until now, two of the four trees are still alive and are believed to be the ancestors of oil palm in Southeast Asia. Some of the descendants of oil palm from the Bogor Botanical Gardens have been introduced to Deli Serdang (North Sumatra), which is called the Deli Dura variety. Indonesia's palm oil industry is also experiencing rapid development, both large-scale business actors and small farmers. This development is driven by high demand from the world market, especially from China, India, Pakistan, Malaysia, and the Netherlands. Indonesia's palm oil production has grown nearly threefold over the last decade, with acreage growth of 8% per year and production growth of around 11% per year. Since the beginning of the growth of oil palm in Indonesia in 1970, oil palm plantations have been dominated by large plantations, both private and state. It was judged by the average growth of oil palm plantations of 10.99% from 1998 to 2016. In 1980 the area of Indonesia's oil palm plantations was 294.56 thousand hectares; in 2015, it reached 11.30 hectares. Production plantations follow the oil palm area of 11.50%. Indonesia is now listed as the world's largest producer and exporter of palm oil (CPO). The growth of the palm oil industry has recorded positive implications for improving the rural economy. The existence of oil palm plantations, which are primarily located in remote areas, has caused various economic activities to emerge, from shops selling

daily consumption products and restaurants to motorized vehicles, bank offices, and others. Oil palm plantations have a fundamental role in developing remote and underdeveloped areas into developed and prosperous areas.

The palm oil industry in Indonesia can provide around 16,2 million jobs, both directly and indirectly. Besides creating job opportunities, the palm oil sector also helps alleviate poverty. The palm oil commodity sector is also listed as the primary driver of agribusiness development from upstream to downstream and one of the commodities that significantly contribute to generating foreign exchange, which is around US\$ 19 billion annually. Palm oil commodities can have a positive impact on economic growth. The foreign exchange from exports of palm oil and its processed products has also contributed to a surplus in Indonesia's trade balance. This foreign exchange has placed the palm oil industry as the most significant contributor to foreign exchange compared to other national industrial sectors. Meanwhile, the second position is occupied by the mineral fuel sector with an export of US \$ 9.3 billion. This shows the importance of foreign exchange generated by the palm oil industry in Indonesia's trade balance.

Indonesia's economy has been hit since the government confirmed the first corona infection in Indonesia on March 2, 2020. Not only has it created a public health crisis, the Covid-19 pandemic also significantly disrupted national economic activities. The government's decision to implement Large-Scale Social Restrictions (PSBB) since April 2020 has had a broad impact on the process of production, distribution, and other operational activities, which ultimately disrupts economic performance. The Indonesian economy in 2020 was predicted to grow negatively. This policy impacts the demand side due to decreased travel and transportation activities and restrictions on the movement of people and modes of transportation, leading to increased transportation costs and disruption of trade activities. On the supply side, there has been a contraction in worker or labor productivity, a decline in investment and funding, and disruption of global supply chains. The global economic slowdown has caused a decline in world demand, impacting Indonesia's exports.

Covid-19 has dramatically impacted all sectors in Indonesia, not only the health sector and the economic sector, which have been seriously affected by this pandemic. The agricultural sector also experienced a moderately severe impact, one of which was in the oil palm plantation sector. This phenomenon has a negative impact because oil palm plantations are a sub-sector commodity that has a reasonably strategic role, both in national and global economic development, and provides employment, economic growth, a source of foreign exchange, and poverty alleviation. Oil palm plantations are also one of the types of plantation crops that are found in the agricultural sector in general and the plantation sector in particular. It is because of the many plants that produce oil or fat, and palm oil produces the most significant economic value per hectare in Indonesia. In 2019, the amount of palm oil was 29.5 million tons. This decreased significantly in 2020 to 27.3 million tons. Covid-19 has succeeded in weakening the oil palm plantation sector in Indonesia. The impact is dangerous because it is directly related to the export of palm oil to the international market.

Taking into account the substantial contribution of exports of palm oil and its derivatives to Indonesia's gross domestic product (GDP), any disruption to palm oil exports due to the Covid-19 pandemic will affect the performance of the agricultural sector's GDP and national GDP and regional gross domestic product (GRDP) as a whole. This situation certainly disrupts the value of palm oil for Indonesian, especially since palm oil is an essential commodity. Palm oil is a significant source of foreign exchange for the country. Besides that, this sector has created many job opportunities, so many Indonesian people depend on this sector. The impact of palm oil on the Covid-19 pandemic requires the Indonesian government to carry out a strategy so that the palm oil sector does not decline significantly. Because if left unchecked, it will undoubtedly disrupt the stability of the national economy. This strategy is expected to maintain the stability the value of palm oil during the Covid-19 pandemic.

## **B. Research Question**

1. How does Indonesia maintain the value stability of Palm Oil during Covid-19 Pandemic?

## **C. Theoretical Framework**

In this paper, the author wrote about Indonesia's strategy in maintaining palm oil value during Covid-19. The author used a theory and a concept to explain it. The author used economic diplomacy as a theory.

### **1. Economic diplomacy**

Economic diplomacy has been practiced since ancient times. Economic diplomacy is not a practice of diplomacy apart from public diplomacy. Economic diplomacy has assumptions and carries out the same strategy as diplomacy in general. However, several things distinguish economic diplomacy and cause economic diplomacy to be separated into separate studies. One of the main characteristics of economic diplomacy is that economic diplomacy is very sensitive and reactive to changes and market developments (Woolcock, 2017). From the beginning of the establishment of the diplomatic relations contract, the economy was an exciting factor. It is important because the economy is a significant factor in building a country. Without a solid economic instrument, the country will find it difficult to prosper. It gave birth to economic diplomacy, which aims to promote national economic prosperity. Economic diplomacy is enhancing TTI (Trade, Tourism, and Investment). The main objectives of the TTI Cooperation are to encourage exports, increase investment and foreign tourist visits, and encourage the national economy. In addition, TTI is an essential source of foreign exchange for the national economy.

According to van Bergeijk & Moons, economic diplomacy contains three pillars, namely

1. The use of political influence and relations to promote or influence trade and investment,
2. The use of economic assets to increase the costs of conflict and strengthen mutually beneficial relationships,
3. Efforts to consolidate the international political climate and environment to achieve these goals.

Therefore, economic diplomacy is a tool to gain through economic activities with other countries, including providing economic assistance to developing countries. Economic diplomacy is also a soft power tool for a country's foreign policy to increase its influence on other countries.

There are several levels in economic diplomacy. The first level is Multilateral, which consists of several states participating in the interaction. The second level is Plurilateral, where many international relations actors exist, such as states, international organizations, and businesses. The third level is Regional, followed by states in one geographic area so that the scope of states who participate in interaction is limited by geography. The fourth level is Bilateral, which consists of only two states.

The author believes that economic diplomacy can describe the strategy of Indonesia in maintaining palm oil value during Covid-19. It is because during the pandemic, the Indonesian government will continually strengthen diplomatic ways to defend Indonesia's economy. Indonesian government has carried out a strategy by establishing bilateral cooperation with countries that are export destinations for palm oil. In addition to improving relations between countries, this is to discuss related to palm oil exports to these countries. Especially during this pandemic, the country's export and import activities were disrupted by strict regulations. It is hoped that this collaboration will maintain the stability of palm oil exports so that the value of palm oil is maintained. It is the ways to increase palm oil value and and to defend Indonesia's economy during Covid-19 pandemic, because palm oil has been a significant source of

income for Indonesia. Bilateral cooperation is Indonesia's way of increasing the palm oil trade during the Covid-19 pandemic. The excellent relationship between Indonesia and the destination countries for palm oil exports makes it easier for Indonesia to overcome this problem. With good results, Indonesia can negotiate with the destination countries for palm oil exports. This collaboration resulted in foreign investment in the Indonesian palm oil sector. It is beneficial for the Indonesian state because it can maintain the stability of oil palm. In addition, this cooperation is also intended to improve relations between countries. Palm oil can be an essential asset to strengthen relations between countries. Moreover, several countries need palm oil for their people. Thus, a mutually beneficial relationship was established between the two countries. In this case, Indonesia benefits by selling palm oil to improve the economy and welfare of Indonesia, and the destination countries for palm oil exports can meet domestic needs.

For those reasons, the author believes the theory can help in explaining and describing in this research Indonesia's strategy in maintaining the value of palm oil during Covid-19.

#### **D. Methodology**

Methodology in research is the way in collecting data and how to analysis the case. In this research, author uses qualitative research methods. Qualitative research methods, namely where this method emphasizes the research process on the search for meaning, characteristics, symptoms and descriptions of a phenomenon.

The author uses data collection techniques which include using secondary data. Secondary data processing includes library research from various written and digital sources. The sources of these writings include works of thought by experts related to research, such as books, journals, news, and articles.

## **E. Hypothesis**

According to the background and theoretical framework, the author found hypothesis:

The Indonesian government establishes bilateral relations in order to increase investment with export destination countries to maintain the value of palm oil during the Covid-19 pandemic.

## **F. Research Scope**

In this research, the author will use a research scope from 2019 to 2020 to explain the condition during Covid-19. Although the covid-19 will continue the following year, the author cannot focus on research. It is also to make it accessible in collecting the data because it is a new phenomenon and minimal data available. For this reason, the author will write the Indonesian strategy for maintaining the value of palm oil from 2019 to 2020.

## **G. Writing System**

In the writing system, the author divides into four chapters. It explains precisely the research about Indonesia's strategy in maintaining palm oil value during covid-19. The chapter is:

- Chapter I

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- Chapter II

This chapter will describe the problem of palm oil conditions during covid-19. It will explain palm oil in Indonesia, describe the contribution of the palm oil market to Indonesia's economy, and explain the condition of palm oil during covid-19.

- Chapter III

This chapter will try to answer the research question of the topic. It will elaborate on how the response of the government to resolve the problem in the palm oil issue.

- Chapter IV

This chapter will conclude and summarize what is explained in the previous chapter.