

The Impact of ASEAN-China Free Trade Area (ACFTA) Towards Indonesian CPO Export Value

ORIGINALITY REPORT

2%

SIMILARITY INDEX

2%

INTERNET SOURCES

0%

PUBLICATIONS

%

STUDENT PAPERS

MATCH ALL SOURCES (ONLY SELECTED SOURCE PRINTED)

2%

★ uphsurabaya.ac.id

Internet Source

Exclude quotes Off

Exclude bibliography On

Exclude matches < 2%

The Impact of ASEAN-China Free Trade Area (ACFTA) Towards Indonesian CPO Export Value

by Lasman Parulian Purba

Submission date: 16-Jun-2021 09:43AM (UTC+0700)

Submission ID: 1607247331

File name: O_export,_free_trade_area,_time_series_Lasman_Parulian_Purba.pdf (142.04K)

Word count: 3053

Character count: 15879

The Impact of ASEAN-China Free Trade Area (ACFTA) Towards Indonesian CPO Export Value

Lasman Parulian Purba¹† and Evi Thelia Sari²

¹ School of Creative Industry, Universitas Pelita Harapan
Jl. Jend. A. Yani no.288

Waru - Surabaya (60234), Indonesia

² International Business Management Lecturer, Universitas Ciputra

Waterpark Boulevard, Citra Raya, Surabaya (60216), Indonesia

Email: lasevinik@yahoo.com, lasman_purba@uphsurabaya.ac.id¹

evithelia@yahoo.com, evithelia@ciputra.ac.id²

Abstract - ASEAN-China Free Trade Area (ACFTA) was formally effective on January 1st, 2010. The broader free trade area than before (AFTA without China) has made many changes in strategies of the ASEAN countries in doing the trade and their exports. Indonesia is still focusing its export on crude palm oil (CPO) (Indonesian Palm Oil Board, 2007). Before ACFTA, the market of Indonesian CPO was mainly in ASEAN. So, it seems that positively, the impact of ACFTA will increase the Indonesian CPO export to China instead of only in ASEAN market.

The data used in this paper is secondary data during 2008 to the mid of 2010 to describe the changes on Indonesian CPO export value to China. Analyzing the impact of ACFTA towards Indonesian CPO export value was done by comparing the export value during the period and using trend of time series, it would be known whether the impact is positive or not.

The objectives of this paper are to understand about the impact of ACFTA towards the Indonesian CPO export value and to give insights on how to react effectively in the broader free trade agreement.

Keywords: ACFTA, Indonesian CPO export, free trade area, time series

1. INTRODUCTION

CPO production of Indonesia has been surpassing CPO production of Malaysia (Dept. of Agriculture & Forestry Indonesia, MPOB; Janurianto, 2009) as shown in Figure 1. Triyanto (2007) and Sari (2010) were also agreed with the statement. The market share of Indonesian palm oil in global market was 46% and followed by Malaysia as 41% in the second position in 2006. USDA report in 2007 indicated that during 2006, Indonesia is the largest CPO producers in the world followed by Malaysia (43%), others (7%), Thailand (2%), Nigeria (2%) and Columbia (2%). Indonesian Palm Oil Board website (2010) described that Indonesia is currently considered as the top CPO producer with the contribution is 50.2 % of total world CPO production. This designation will continue and Indonesia's production rate will outpace Malaysia for the foreseeable future (USDA, 2007). So, it's reasonable well that oil palm becomes one of the important products which are need a

protection and maintenances by our government.

Governments' Head of the ASEAN member states and China signed Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People's Republic of China (ACFTA) on November 4th, 2004 in Phnom Penh, Cambodia. There are four points the objective of the agreement besides both parties have agreed to strengthen and improve economic cooperation through three items (Mustakin and Salam, 2009). All of the point was based-on a general view point which is ensure will bring a mutualism and or a high benefit/ positive impact for both parties.

It is a need to conduct some researches in the macroeconomic point of views in order to understand the impacts of implementation ACFTA toward Indonesian. In macroeconomic point of view, the trade balance of a country is affected by export value, import value, inflation rate, export tax, product domestic bruto and so on (Divinagracia, 2010). This research is a study mainly about

† : Corresponding Author

the Indonesian export product which gain contribution USD 13.79 billions for the nation's revenue.



Figure 1: Indonesian and Malaysia CPO Production, Mio ton (Janurianto, 2009).

Currently, CPO is one of the 35th industrial priorities chosen product to develop in Indonesia (Kepala Biro Perencanaan Kementerian Perindustrian Indonesia, 2010).

Explorations of what are the impacts of ACFTA toward Indonesian CPO export value will be presented in this research as well as Indonesian CPO export value to China before 2010 and after 2010. The exploration will make us understand about the impact of ACFTA towards the Indonesian CPO export value and to give insights on how to react effectively in the broader free trade agreement.

2. RESEARCH METHODOLOGY

This research was started with the data from Indonesian Palm Oil Board, PT. Bakrie Sumatera Plantation Tbk ("BSP") (Janurianto, 2009), Central Agency of Statistic Indonesia, Agriculture Department, Newspapers, and Internetworking. All of them will be the data about CPO Indonesian Export Values in the order of time series (year).

3. INDONESIAN CPO EXPORT BEFORE ACFTA

This section explains about Indonesian oil palm and palm oil industry before ACFTA, 1st January 2010, to describe the changes of Indonesian trade up to 2020.

Within period 1967-1978 the production area of oil palm in Indonesia was only concentrated in large plantation field. But since 1979 there was included smallholder plantation with the starting area 3,125 ha and the production of smallholder plantation was 760 tonnes. Since then the contribution of smallholder in national oil palm production has been increasing. In 1990s, oil palm and

palm oil industry were developing rapidly. In that period, oil palm cultivation increased about 11% each year and the production was also increasing 9.4% per year. The demand from domestic and export were increasing for about 10% and 13% per year. In the beginning of 2001-2004 the oil palm plantation area and the production of oil palm was increasing 3.97% and 7.25% per year, and the export increased 13.05% per year (Direktorat Jenderal Bina Produksi Perkebunan, 2005). The plantation area was increasing 2.6% from 2006 in 2007 and 11.6% in 2008. Even though in the middle of 2008 the misery of palm oil industry hit the producers in the world due to the global financial crisis, issues of oil palm plantation-caused damage to environment and also unclear issues of oil palm plantation closing by Indonesia government to avoid larger loss to farmer but since the oil palm-based products are still needed, it can assure of the prospect of palm oil industry in the future.

Before ACFTA was officially applied, oleochemicals productions in South East Asia in 2007 were dominated by Malaysia and China. It showed that oleochemicals as the derivative products of palm oil had experienced increasing demand in ASEAN market. Malaysia and China were dominating the oleochemicals market due to the more advance technology owned by Malaysia and China (Cheah, 2007).

Indonesian government has issued contingency policy to apply 0% tax on CPO export to ease and support the export, because stocks of raw material in producing CPO and other derivative products should be sold to avoid damage of the commodity in farm level due to the nature of the agricultural products.

Towards the palm oil industry, Indonesian Government has stated the priority products, which is called *picking the winner strategy*. In 2030, the government has planned to prepare 10 products which high export potential, including palm oil. In 2010, The Indonesian Minister of Trade issued 2008 priority included CPO. It will be the encouragement to the palm oil industry in Indonesia, in the middle of the global financial crisis.

Palm oil can be used for many other products. Generally, the usage of palm oil in Indonesia 30% for cooking oil and food industry, 60% for being exported and 10% will be used in oleo chemical industry (Hadisoebroto, 2006).

The target market of Indonesian palm oil products are India, Netherlands, Malaysia, China, USA, Italy, Singapore, Egypt, Pakistan, Bangladesh, and Saudi Arabia and it can grow broader when the awareness of biofuel usage increase in all countries in the world. The main destination countries of CPO Indonesian exports are China, India, Netherland and Pakistan. The CPO is still exported mainly by Indonesia (Sari, 2010) because the main and the famous

raw material of biofuel is palm oil (Indonesian Palm Oil Board, 2007), it will further processed in the importing countries as mentioned recently.

Indonesia seems to maintain existed market target and even to increase the value of export to these countries rather than focusing in finding new markets. However, Indonesia is trying to export more to other countries in the world.

Product	Percentage
CPO (HS Code 151110)	37%
Other Palm Oil	48%
Crude Palm Kernel	7%
Other Palm Kernel Oil	2%
Palm Nuts and Kernel Oil	1%
Industrial Fatty Alcohol	1%
Acid Oils from Refining	1%

Source: Indonesian Palm Oil Board, 2007 (adapted)

Indonesia is still focusing its export on crude palm oil (CPO) as shown in Table 1 although HS Code 151110 is not the highest total export of Indonesian palm oil.

Year	Volume (Tonnes)	Value (000 USD)
2004	894,442.3	349,736.1
2005	959,531.6	336,344.3
2006	101,129.2	371,522.3
2007	838,991.4	545,370.6
2008	669,066.1	933,765.0
2009	336,323.6	503,302.0
2010	836,323.6	1,050,869.0

Source: United Nations (processed)

The 2010 data was taken from Indonesian Palm Oil Board, 2010 (adapted)

4. INDONESIAN CPO EXPORT AFTER 1st JANUARY 2010

It can be observe clearly in some trading between China and ASEAN increased from USD 192.5 billion in 2008, and from USD 59.6 billion in the year 2003. The trading between China and ASEAN is value about USD 4.3 trillion equal to 13.3 % of global trading volume (Budiono,

2010).

CPO	2009 (Jan-Apr)	2010 (Jan-Apr)
CPO (HS Code 151110)	4.61 million tonnes	4.65 millions tonnes
Other Palm Oil		
Crude Palm Kernel		
Other Palm Kernel Oil		
Palm Nuts and Kernel Oil		
Industrial Fatty Alcohol		
Acid Oils from Refining		

Source:

<http://us.detikfinance.com/read/2010/05/25/180710-12640074/ekspor-cpo-cpm-465-juta-hingga-april-2010> accessed 29th June 2010 (adapted)

As of Table 3, in the one four of the year 2009 total CPO Indonesian export volume was 4.61 millions (tonnes), in that of the year 2010 the CPO Indonesian export volume was 4.65 million (tonnes). It means that there is an increasing value of the total CPO export volume before ACFTA and after the implementation of the ACFTA.

Under ACFTA, the CPO export to China from Indonesia is increasing significantly. ACFTA was established to ease the trade between China and ASEAN countries. There are about 90 % of all traded goods have been set to get zero for the tariffs. Certificate of Origin (COO) Form E is also benefiting the trade between Indonesia and China. As the 90 % of fat and animal oil or vegetable oil exported by Indonesia to China is enjoying the COO Form E.

Indonesian Trade Ministry has determined the export tax of crude palm oil (CPO) for June at 4.5 percent, similar with that of May. The new tax will be effective on June 1, 2010. The export tax for CPO is higher than 2009 which was only 3 %. Actually, the implementation of the export tax towards CPO has substantial effects on both efficiency/growth and welfare distribution. The study by Wayan R. Susila (2004) found that an increase of a 1 % export tax rate causes a 0.19 % decrease in mature area/investment, 0.81 % drop in production and 0.41 % cent drop in export.

While in this case, although CPO export tax is considered higher than before, but to China market, as the ACFTA agreement that gives China opportunity to enjoy

the COO, the increasing export tax applied will not give any impacts towards its demand on Indonesian CPO.

Destination	Tonnes
Bangladesh	55.947
China	140.851
India	367.697
Europe	219.190
USA	13.120
Others	231.677
TOTAL	1,028.482

Source:

<http://www.detikfinance.com/read/2010/05/25/180710136400744ckspor-cpo-cpoin-465-juta-hingga-april-2010> accessed 29th June 2010 (adapted)

Year	Weight (Tonnes)	Value (000 USD)
2005	56,622,7	19,434,3
2006	311,121,4	119,882,2
2007	237,205,9	158,247,7
2008	306,205,4	240,087,7
2009	335,768,7	204,950,8
2010	1,738,000,0	1,383,169,9

Source: www.comtrade.id.org

The 2010 data was taken from Indonesian Palm Oil Board, 2010

Table 5 showed the market of Indonesian CPO to China, the increase of either volume or value of Indonesian CPO export periodically although in 2010 the volume and value described in table is still estimated (as the year 2010 is still running). The data of Indonesian export to China in 2010 was taken by multiplying the volume as estimated (1,738,000 tonnes) with the CPO reference price which is USD 795.84 (Indonesian Palm Oil Board, 2010).

In 2008, CPO Indonesian export volume to China was USD 240 millions. The main competitors of Indonesia's export to China for CPO are Malaysia (42%) and Thailand (6.4%) (Mutakin and Salam, 2009). Based-on Table 5 can be inferred that Indonesia still focusing on his

CPO export before and after ACFTA.

The condition in 2009 compared to 2008 was different although in 2009 the volume of CPO export increased higher than 2008, but the value was lower than a year before. It was due to the different CPO price in global market in 2009 which lower than 2008. In 2010, as the referenced CPO price was about USD 795.84, and the volume was higher than before, and it can be estimated that the value will also be higher than before.

Up to 2020, it is predicted that the oil palm and palm oil industry in Indonesia will continuously increased. CPO will increase up to 5-6% until that year.

5. CONCLUSION

An exploration of what are the impacts of ACFTA toward Indonesian CPO export value based-on data as mentioned in the research methodology section has been presented. A comprehensive exploration was only based-on availability of the data which is secondary data. The impact is either positive or negative. It is a need to understand about the impact of ACFTA towards the Indonesian CPO export value and to give insights on how to react effectively in the broader free trade agreement.

From ACFTA Indonesia would gain more benefits than harm -as a positive impact of ACFTA in term of the CPO export value. To strengthen the impact, need support to our Government as the policy maker to make the ACFTA more benefit than harm. ACFTA will encourage our small medium enterprises (SMEs) to gain more export than import especially for many kinds of products not only CPO. Because there are so many products from China come into Indonesia, product prices will decrease then buying capacity of our people will increase an also prosperity.

From ACFTA Indonesia would gain more harms than benefits -as a negative impact of ACFTA in term of the CPO export value. Our domestic market becomes in-danger conditions, Government's income may decrease because there is no more import tariffs China's products as higher demand follows more products in market, and Indonesia National Standard (SNI) committee must work harder than before to monitor LPG materials, milk, and children's toys are such negative impacts of the ACFTA's implementation.

REFERENCES

- Budiono, G. (2010) *ASEAN-CHINA Free Trade Agreement Commencement: China's Competitive Products A Trading Menace and Economic Struggle of Indonesia*, Studies in Business and Economics, pp. 92 - 100.

Biro Pusat Statistik, www.bps.go.id

Cheah, S.C. (2007) The Growth and Challenges of the Oleochemical Industry in South East Asia (SEA). *Proceeding of ICIS 6th World Oleochemicals Conference 2007*. Belgium.

Departemen Pertanian Republik Indonesia, www.deptan.go.id

Direktorat Jenderal Bina Produksi Perkebunan, <http://ditjenbun.deptan.go.id/>

Divinagracia, L., and Latumahina, R. (2010) *Focus Group Discussion report on topics Pro Contra Indonesia would gain more benefits than harms from ACFTA with Asian Parliamentary Method*. UPH Surabaya, Surabaya, Indonesia.

Hadisoebroto, K. (2006) Oleochemical that Compatible to Future's Trend and Industrial Needs. *Kadin's Roundtable Discussion on Industrial Roadmap dan Vision*. Jakarta, Indonesia.

Indonesian Palm Oil Board, www.indonesiapalmoil.com

Jamrianto, A. (2009) Fats & Oils Supply Demand: Impact on Indonesia Palm Oil A "BSP" Prospective. *Indonesian Palm Oil Conference and Price Outlook 2010, Bali, December 2-4*. Indonesia.

Kepala Biro Perencanaan Kementerian Perindustrian Indonesia (2010) Membangun Kekuatan Industri Nasional pada Era Pasar Bebas ACFTA. *Seminar Nasional INDECT2010 IT Telkom Bandung*. Indonesia.

Mutakin, F., and Salam, A. R. (2009) The Impact of ASEAN-CHINA Free Trade Agreement on Indonesian Trade. *Economic Review No.218*, Jakarta.

Sari, E. T. (2010) Revealed Comparative Advantage (RCA) and Constant Market Share Model (CMS) of Indonesian Palm Oil in ASEAN Market. *A Minor Thesis for The Degree of Art in Agribusiness Management Prince of Songkla University*, Hat Yai, Thailand.

Susila, W. R. (2004) Impacts of CPO-Export Tax on Several Aspects of Indonesian CPO Industry. MPOB, Malaysia.

Triyanto, (2007) Formulasi Strategi dan Skenario Produksi Biodiesel di Indonesia. *Tesis Magister Manajemen dan Bisnis Institut Pertanian Bogor*, Bogor, Indonesia.

United States Department of Agricultural, USDA, <http://www.usda.gov>

<http://english.peopledaily.com.cn/90001/90778/90858/90863/7002629.html>

<http://us.detikfinance.com/read/2010/05/25/180710/1364007/4/ekspor-cpo-capai-465-juta-hingga-april-2010>, Accessed on 29th June 2010.

<http://www.detikfinance.com/read/2010/05/25/180710/1364007/4/ekspor-cpo-capai-465-juta-hingga-april-2010>, Accessed 29th June 2010 (adapted)

<http://www.fas.usda.gov/oilseeds/circular/2006/06-07/julycov.pdf>. Downloaded on October the 13th 2009.

<http://www.indonesiapalmoil.com/2010/02/pasca-acfta-ekspor-palm-oil-cpo.html>. Downloaded on 13th July 2010.

<http://www.thejakartaglobe.com/business/rising-chinese-demand-sees-palm-oil-exports-rebound-after-5-month-lull/383083>. Accessed 29th June 2010 (adapted)

AUTHOR BIOGRAPHIES

Lasman P. Purba was awarded a full scholarship to take a Master of Engineering Degree from Thai Government namely The NRCT-JSPS (National Research Council of Thailand – Japan Society for the Promotion of Science) Joint Research Program from Prince of Songkla

University Thailand (PSU Hat Yai Campus) in 2006. His bachelor of engineering (graduated: 2000) was from Sepuluh Nopember Institute of Technology Surabaya (ITS Surabaya). He has a Lektor (Asst. Professor) since 1st April 2006.

Evi Thelia Sari, SE., MA (in Agribusiness Management) lives in Surabaya. She completed her Master degree from Master of Arts Program in Agribusiness Management, Prince of Songkla University (PSU Hat Yai Campus) in 2010.