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(IJLGC)**www.ijlgc.com**PALM OIL EXPORTS - IMPORTS BETWEEN INDONESIA
AND MALAYSIA BASED ON THE PERSPECTIVE OF
ABSOLUTE ADVANTAGE THEORY**Delina Stia Wahyuaristy^{1*}, Muhammad Khoiril Akhyar²¹ Department of Law, Universitas Muria Kudus, IndonesiaEmail: delina.stia@umk.ac.id² Department of Law, Universitas Muria Kudus, IndonesiaEmail: 202220031@std.umk.ac.id

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DOI: 10.35631/IJLGC.1040051**This work is licensed under [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/)****Abstract:**

The foreign exchange earnings of countries in Southeast Asia, especially Indonesia and Malaysia, mostly come from one of the main agricultural commodities, namely palm oil. Domestic palm oil production intended to meet palm oil needs in Indonesia has been fulfilled without the need for contributions from other countries. Thus, there is a surplus between palm oil production and domestic palm oil needs, so that the surplus can ultimately be exported to meet demand for palm oil from other countries. The challenge faced by Indonesia in exporting palm oil to other countries is that the number of Indonesian palm oil derivative products is still inferior to Malaysia which has around 250 derivative products. This is of course a big challenge, considering that Indonesia is the main country producing palm oil, but in reality, Indonesia has not been able to process palm oil derivative products which have a higher selling value on the international market. This research was conducted using a normative juridical method with a comparative approach and a conceptual approach and analysed using the theory of absolute advantage. In the context of this paper, it is interesting when the absolute advantage theory is used in analysing the superiority of Indonesian and Malaysian palm oil exports and imports within the scope of international trade law. Challenges in the absolute superiority between Indonesia and Malaysia in international trade, both from within the country, in the form of competition for land between oil palm plantations, local communities and traditional rights owners, often give rise to land and foreign conflicts in the form of anti-deforestation policies implemented by European Union (EU) countries which prohibit CPO imports as a step to increase the use of renewable energy which is considered more environmentally friendly.

Keywords:

Exports and Imports; Palm Oil; Absolute Advantage Theory

Introduction

Foreign exchange earnings of countries in Southeast Asia, especially Indonesia and Malaysia, are largely sourced from one of the main agricultural commodities, namely palm oil. Based on Trademap data in 2019 and 2023 HS code 1511, there are five largest palm oil exporting countries that cumulatively contribute up to 87% of the total value of palm oil exports in the world. Indonesia and Malaysia are the first and second largest palm oil exporters in the world that dominate the world palm oil market share in 2023 by contributing 52.55% and 27.60% respectively. Indonesia's contribution as the first largest palm oil exporter in the world is based on the results of the *Import Dependency Ratio* (IDR) analysis from 2019-2023 which shows that Indonesia only depends on palm oil imports of 0.02% to 1.09%. While the value of Indonesia's palm oil *Self Sufficiency Ratio* (SSR) ranges from 453.29% to 685.77%. This means that domestic palm oil production intended to meet the needs of palm oil in Indonesia has been fulfilled without the need for contributions from other countries. Thus, there is a surplus between palm oil production and domestic palm oil needs, so that the surplus can finally be exported out to meet the demand for palm oil from other countries (Kementerian Pertanian, 2024).

In its development, there are challenges faced by Indonesia in exporting palm oil to other countries. The Palm Oil Plantation Fund Management Agency (BPDPKS) as of November 2024 noted that until now there have been more than 184 downstream palm oil derivative products. However, BPDPKS also revealed that when compared to Malaysia, the number of Indonesian palm oil derivative products is still inferior to Malaysia which already has around 250 derivative products (Shifa Nur Fadila & Khomarul Hidayat, 2024). This is certainly a big challenge, seeing Indonesia as a major palm oil producer, but in reality Indonesia has not been able to process palm oil derivative products that have a higher selling value in the international market.

The *Absolute Advantage Theory* by Adam Smith in "*The Wealth of Nations*" reveals that countries can benefit from trade if they specialize in producing goods or services that have an absolute advantage over other countries (Saddique Ansari, 2024). The absolute advantage theory evolved in international trade between countries to show the benefits of specialization and specializing in the production of goods and services, thereby countries increase *output* through better resource allocation leading to good economic growth. In the context of this paper, it is interesting when the theory of absolute advantage is used in analyzing the export-import advantages of Indonesian and Malaysian palm oil within the scope of international trade law. Based on the above background, this paper focuses on two things, namely: **First**, the export-import of palm oil between Indonesia and Malaysia based on the perspective of the theory of absolute advantage. **Second**, the challenges of implementing palm oil import-export activities between Indonesia and Malaysia based on the perspective of the theory of absolute advantage in international trade.

Research Methods

This research uses a normative juridical method with a *comparative approach* and *conceptual approach*. The normative juridical method was chosen because it is able to help determine the relationship and legal status in a legal event, provide an assessment (justification) of the event whether it is in accordance with the law, and direct it to the right solution (Muhaimin, 2020). The comparative approach is used to analyze the comparison of the absolute advantages of palm oil import-export activities between Indonesia and Malaysia and the role of international organizations in the regularity of the implementation of palm oil import-export activities between Indonesia and Malaysia. The conceptual approach is used to identify challenges in the implementation of palm oil import-export activities between Indonesia and Malaysia based on the perspective of the theory of absolute advantage in international trade law. The source of data in this research is obtained through secondary data, which consists of primary legal materials, namely laws and regulations and secondary legal materials, namely books, journals, papers, research, and others.

Analysis And Discussion

Palm Oil Export-Import Between Indonesia and Malaysia Based on the Perspective of Absolute Advantage Theory

Adam Smith's theory of absolute advantage states that a country will specialize in producing and exporting goods that can be produced at a lower cost or in greater quantity than other countries. Absolute advantage arises from natural factors such as natural resources, climate, technology, or cheap labor. The theory of absolute advantage contains the following ideas: 1) There is an international *division of labor*, especially in terms of producing a type of good through the division of labor between one country and another. The division of labor can be applied to countries that are able to produce a production of goods but with lower costs and selling prices compared to other countries. Thus, through the low cost, the country has gained its absolute advantage. 2) International specialization and production efficiency. The intended specialization is when a country prefers to import a good from another country compared to producing the good itself. This is based on the consideration of relatively higher production costs when compared to importing these goods from other countries. Therefore, it can be said that through the theory of absolute advantage, a country can obtain its international specialization in the world market when the country has been able to produce goods at a lower cost and has a demand for these goods to be exported in other countries (Serlika Aprita & Rio Adhitya, 2020).

The advantage of absolute advantage is the creation of free trade between two countries that have different absolute advantages. Through the interaction of exports and imports, this can increase the prosperity of these countries. In International Trade Law (e.g. WTO Agreements), this theory is not explicitly the basis, but the adoption of this theory can be reflected in: 1) The principle of Non-Discrimination (*Most Favored Nation/MFN*), where a country is not allowed to differentiate between trading partners and may not impose different tariffs without a legal reason. 2) The Principle of Tariff Reduction, where a country is expected to reduce tariffs for goods produced efficiently by trading partners.

In the context of Indonesia and Malaysia, the absolute advantage of both countries can be seen from the production and export capabilities of oil palm agricultural commodities. Based on data from the United States Department of Agriculture (USDA) in the 2023/2024 period, Indonesia is the largest palm oil producing country in the world through palm oil production of 43 million metric tons (MT). In second place is Malaysia with a palm oil output of 19.71 million MT. Combined, the two countries accounted for 82% of global CPO production in that period (USDA, 2024). Still according to the USDA, as of January 2025 Indonesia and Malaysia occupy the top two positions of palm oil or *Crude Palm Oil* (CPO) exporters in the world. In 2024, USDA noted that Indonesia's CPO exports reached 24.2 million metric tons (MT), and Malaysia's CPO exports reached 15.9 million MT. Combined, Indonesia and Malaysia account for 86% of global CPO exports, which are estimated to total 40.1 million MT in 2024 (USDA, 2024). However, in terms of the ability to process CPO derivative products, Indonesia lags behind Malaysia. The Palm Oil Plantation Fund Management Agency (BPD PKS) as of November 2024 noted that until now there have been more than 184 CPO derivative products produced by Indonesia. When compared to Malaysia, the number of Indonesian CPO derivative products is still inferior to Malaysia which has around 250 derivative products (Shifa Nur Fadila & Khomarul Hidayat, 2024).

Table 1: Comparison of Total Palm Oil Production of Indonesia and Malaysia for the Period 2023/2024.

Country	Percentage of Global Production	Total Production (2023/2024, Metric Tons)
Indonesia	56%	43 Million
Malaysia	26%	19.71 Million
Total	82%	62.71 Million

Source: USDA

Table 2: Comparison of Total Palm Oil Exports of Indonesia and Malaysia in 2024

Country	Percentage of Global Exports	Total Exports (2024, Metric Tons)
Indonesia	52%	24.2 Million
Malaysia	34%	15.9 Million
Total	86%	39.9 Million

Source: USDA

Table 3: Comparison of the Number of Palm Oil Derivative Products of Indonesia and Malaysia in 2024

Country	Number of Derivative Products
Indonesia	184
Malaysia	250

Source: BPD PKS

When compared to the world CPO export market share, Indonesia has 34.4% of the export market share of both CPO and its derivatives. Meanwhile, the other 23.4% is still a raw material product, so it is still possible to increase added value through the optimization of processed palm oil products, especially in the form of biofuels (Lien Febrina et al., 2024). According to the results of the calculation of the RSCA (*Revealed Symmetric Comparative Advantage*)

value, it is known that the oil palm commodity in Indonesia can be said to have a relatively large comparative advantage in the market share of similar commodities in the world because the RSCA figure states that Indonesia is at 0.95% to 0.97% in the period 2018-2022 (Kementerian Pertanian, 2023). Analysis based on this RSCA calculation, provides an overview of how much the proportion of a country's exports in certain industrial activities through a comparison of the country's export structure with the world export structure (Polymeros et al., 2005).

The absolute advantage possessed by Indonesia and Malaysia lies in the same natural conditions for oil palm cultivation. Indonesia and Malaysia are countries located in the Southeast Asian region with a tropical climate and the area of each country is relatively large and fertile for planting oil palm. So based on these conditions, Indonesia and Malaysia are able to produce oil palm in a superior manner when compared to production from other countries. Over time it cannot be denied that with the same conditions and advantages between Indonesia and Malaysia, it turns out that there are some differences regarding the processing and production process of the oil palm planting.

Challenges in the Implementation of Palm Oil Import-Export Activities Between Indonesia and Malaysia Based on the Perspective of the Theory of Absolute Advantage in International Trade

Indonesia and Malaysia's palm oil import-export activities in reality still face challenges despite their absolute advantages. These challenges come from both domestic and foreign factors. Domestically, competition for land between oil palm plantations, local communities and customary rights holders often leads to land conflicts. In many cases, the expansion of oil palm plantations is done without adequate consultation with local communities, triggering resistance from communities who feel their land rights are being violated. As a result, these conflicts not only have an impact on legal and social aspects, but also on the environmental sustainability of the affected areas. Data compiled by Wahana Lingkungan Hidup Indonesia (WALHI) revealed that in 2017, the control of space by oil palm plantation companies was quite high, including: control of oil palm plantations (HGU) by the private sector covering 10,700,000 ha, and control of oil palm plantations (HGU) by BUMN covering 493,000 ha. In total, oil palm plantation companies control 11,193,000 ha. On the other hand, this has also resulted in many Environmental-Agrarian conflicts. Walhi noted, there were around 302 cases of Environmental-Agrarian conflicts in 2017 with 163 people criminalized (Rahmat Maulana Sidik, 2018).

The rapid development of the palm oil industry also has an impact on the environment caused by land clearing for oil palm plantations. Clearing forest land for oil palm plantations can lead to deforestation, loss of wildlife habitat, and climate change. Palm oil production in Indonesia and Malaysia is globally associated with deforestation and high carbon emissions. From abroad, Indonesia and Malaysia face challenges such as anti-deforestation policies implemented by European Union (EU) countries that ban CPO imports as a step to increase the use of *renewable energy* which is considered more environmentally friendly. This ban is contained in the *European Union Deforestation Regulation* (EUDR) which will take effect in May 2023. There are five main reasons for the EU Parliament to issue a ban on imports of CPO and its derivative products, namely the palm oil industry creates deforestation, degradation of animal habitats, corruption, child labor, and human rights violations. The EU Parliament

considers the Indonesian palm oil industry as one of the triggers of these problems (Suwarno, 2019).

Facing these challenges, Indonesia and Malaysia have been working together through the *Council of Palm Oil Producing Countries* (CPOPC) which is an intergovernmental organization for palm oil producing countries. Through Indonesia and Malaysia actively participating in activities or associations, it can be seen how their interests are aligned and both can work together to achieve the same goal, which is to protect themselves from the threat of the same opponent country while still advancing their respective interests. In response to the EUDR taking effect from May 2023, on May 30-31, 2023, CPOPC sent its joint mission, represented by Indonesia and Malaysia, to Brussels to discuss the conditions faced by palm oil producing countries as a result of the EU policy. Broadly speaking, Indonesia and Malaysia mentioned that both countries have been working to improve initiatives related to sustainable palm oil production. Therefore, labeling palm oil as a product that contributes greatly to environmental destruction is considered detrimental to palm oil producing countries (Purwani Diyah Prabandari, 2023).

One of the outcomes of the meeting between the CPOPC joint mission and EU representatives was the establishment of an *Ad Hoc Joint Task Force* (JTF) between Indonesia, Malaysia, and the EU. The JTF held its first meeting on August 4, 2023 with a focus on *Terms of Reference* (TOR) covering issues such as smallholder involvement in the supply chain, relevant national certification schemes, scientific data on deforestation and forest degradation. Indonesia and Malaysia also provided information on the implementation of Indonesia Sustainable Palm Oil (ISPO), MSPO, and existing traceability tools. The *Ad Hoc Joint Task Force* held another meeting on February 2, 2024. In the second JTF meeting, Indonesia and Malaysia stated that both had followed sustainability principles in accordance with EU standards. In contrast, representatives from the EU expressed their commitment to ensure the smooth implementation of EU policies, particularly to ensure that smallholders in all relevant commodity sectors remain included in legal and deforestation-free supply chains to the EU (IPOSS, 2024).

Beyond the CPOPC mechanism and joint missions to counter EU policies. Indonesia and Malaysia also cooperate to strengthen the relationship between Indonesia and Malaysia as the largest palm oil producing countries. In 2021, Indonesia and Malaysia signed a memorandum of understanding on the trade of palm oil sludge, which is a type of waste generated from the process of pressing palm oil into oil. The memorandum of understanding stipulates that Indonesia will sell 2,000 tons of palm oil sludge to Malaysia every month until 2023. Through the sale of palm oil sludge, Indonesia and Malaysia are trying to counter the negative stigma that has arisen as a result of restrictions on palm oil exports to the European Union. This is done by showing that both countries have a good waste management system through recycling palm oil sludge into a base material for biomass fuel production. In other words, Indonesia and Malaysia are working together in palm oil diplomacy to show that the negative impacts of the development of the palm oil industry can be overcome through a good waste management system, one of which is through waste trading, as done by Indonesia and Malaysia.

In addition, Indonesia and Malaysia also initiated a cooperation dialog with the title "*The Palm Oil Industrial Dialogue Between Indonesia and Malaysia*" which was held on February 9, 2023. The dialogue discussed several programs that are planned to be implemented by

Indonesia and Malaysia to develop the palm oil industry amidst the hindering policies of the European Union. The programs are based on the *Global Framework Principles for Sustainable Palm Oil* (GFP-SPO) issued by the CPOPC Secretariat. Coordinating Minister for Economic Affairs Airlangga Hartarto said that in order to continue developing the palm oil industry in Indonesia and Malaysia, both countries need to focus on the domestic palm oil industry. This is because if the domestic palm oil industry runs efficiently, Indonesia and Malaysia can maintain the most favorable remuneration prices for both countries in the palm oil sector. One of the programs undertaken by the governments of Indonesia and Malaysia is to provide support for smallholders who have a large portion of employment in the palm oil sector. In addition, the governments of Indonesia and Malaysia also implemented ISPO and MSPO certification policies to improve the competitiveness of palm oil products from both countries (Kementerian Perdagangan, 2021).

Indonesia itself, since the beginning of the issuance of restrictions on the use of palm oil commodities by the European Union, has expressed its disagreement in the form of a complaint to the European Union at the World Trade Organization (WTO). On December 9, 2019, Indonesia officially filed a complaint against the European Union at the WTO through the Permanent Mission of the Republic of Indonesia (PTRI) in Geneva, Switzerland. In the latest development on 10 January 2025, the WTO published a *panel report* that generally stated that the EU discriminated by giving less favorable treatment to palm oil-based biofuels from Indonesia compared to similar products originating from the EU such as rapeseed and sunflower. The EU also differentiates treatment and gives more advantages to similar products imported from other countries such as soybeans. In addition, the WTO Panel considered that the EU failed to review the data used to determine biofuels with *high ILUC-risk* palm oil land use change categories and there were deficiencies in the development and implementation of *low ILUC-risk* certification criteria and procedures in the *Renewable Energy Directive* (RED) II. Therefore, the EU was required to adjust the policies in the *Delegated Regulation* which the Panel found to be in violation of WTO rules. Under WTO rules, if there are no objections from the disputing parties, the panel report will be adopted within 20-60 days after it is circulated to WTO Members, making the report binding on Indonesia and the EU. The EU will then take the necessary steps to comply with its obligations under the WTO Panel ruling (Kementerian Perdagangan, 2025).

Conclusion

Based on the description in the discussion above, it can be concluded as follows:

1. Indonesia and Malaysia, as the largest palm oil producers, each have their own absolute advantages. Indonesia has an advantage in terms of CPO production and exports in international trade, while Malaysia has an advantage in terms of the ability to process CPO derivative products.
2. Challenges in absolute advantage between Indonesia and Malaysia in international trade include:
 - a) Domestically, competition for land between oil palm plantations, local communities and customary rights holders often leads to land conflicts.
 - b) From abroad, Indonesia and Malaysia face challenges such as anti-deforestation policies implemented by European Union (EU) countries that ban CPO imports as a step to increase the use of *renewable energy* which is considered more environmentally friendly.

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