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EXPANSION TREND: INDONESIA'S PALM OIL SECTOR GOVERNMENT PLANTATION HEADING FOR EXTINCTION

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Abstract

Palm Oil plantations in Indonesia are experiencing a trend of land expansion. The land expansion makes Indonesia, the country with the largest palm oil plantation land in the world, and at the same time the world's largest producer of palm oil. Land expansion is carried out by Government Plantation, Smallholders Plantation, and Private Plantation. However, when observed in more detail, land expansion from Government Plantation has not shown a significant increase and has recently decreased. Seeing the decline in the land area of Government Plantation amid the trend of land expansion of palm oil plantations in Indonesia, this paper argues that liberalization encourages the government to reduce its economic activity in the palm oil plantation sector, and provides opportunities for the market to develop Smallholders Plantation and Private Plantation. Liberalization encouraged the expansion of plantation land nationally, but limited the increase in the land area of Government Plantation.

Keyword: Expansion, Government Plantation, Liberalization, Palm oil plantation, Private Plantation, Smallholders Plantation

Abstrak

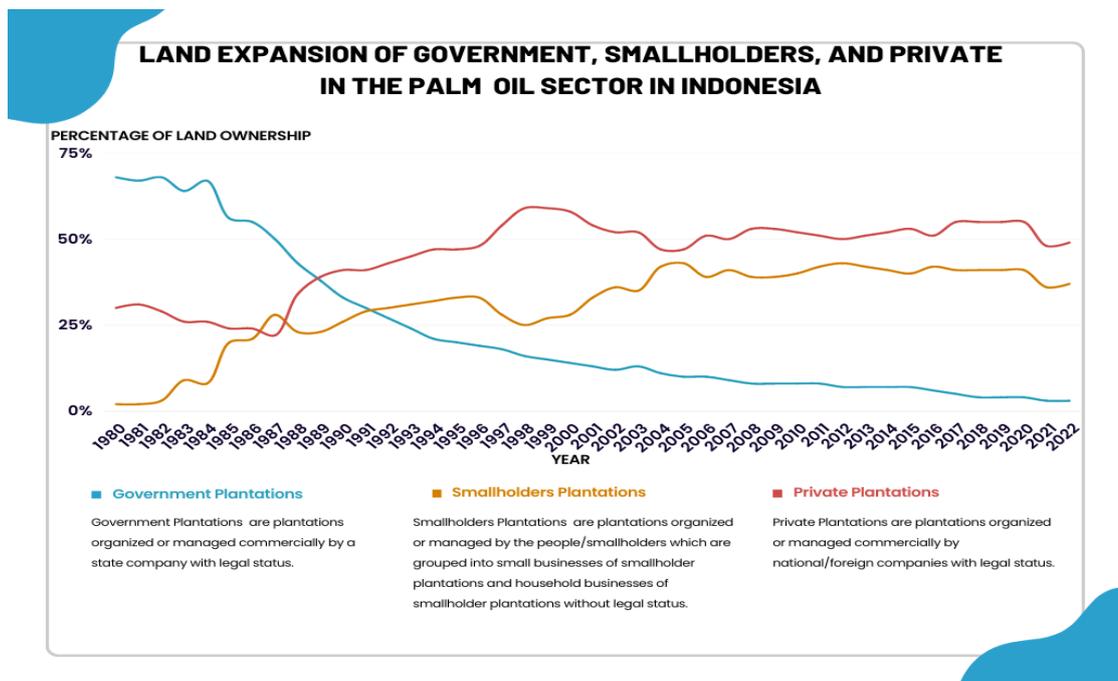
Perkebunan kelapa sawit di Indonesia mengalami tren ekspansi lahan. Ekspansi lahan tersebut menjadikan Indonesia sebagai negara dengan lahan perkebunan kelapa sawit terluas dunia, dan sekaligus produsen minyak kelapa sawit terbesar dunia. Ekspansi lahan dilakukan oleh Perkebunan Besar Negara (PBN), Perkebunan Rakyat (PR), dan Perkebunan Besar Swasta (PBS). Namun bila diamati secara lebih detail, ekspansi lahan dari Perkebunan Besar Negara (PBN) tidak menunjukkan peningkatan signifikan dan malah akhir-akhir ini mengalami penurunan. Melihat penurunan luas lahan Perkebunan Besar Negara (PBN) di tengah tren ekspansi lahan perkebunan kelapa sawit di Indonesia, tulisan ini berpendapat bahwa liberalisasi mendorong pemerintah untuk mengurangi aktivitas ekonominya di sektor perkebunan kelapa sawit, dan memberi peluang bagi pasar untuk mengembangkan Perkebunan Rakyat (PR) dan Perkebunan Besar Swasta (PBS). Liberalisasi mendorong ekspansi lahan perkebunan secara nasional, namun membatasi peningkatan luas lahan Perkebunan Besar Negara (PBN).

Kata Kunci: Ekspansi Perkebunan Besar Negara (PBN), Liberalisasi, Perkebunan Kelapa Sawit, Perkebunan Besar Swasta (PBS), Perkebunan Rakyat (PR)

1. Introduction

Smallholders Plantation and Private Plantation in the palm oil sector that were established in 1974 and 1977 experienced an increase in land area from year to year. Meanwhile, the Government Plantation, which existed even before independence, did not follow the increasing trend. If in 1980, the land area of Government Plantation was around 68%, but in 2022 it fell to only around 3% of the total percentage of palm oil plantation land area in Indonesia. The Government Plantation is gradually heading towards extinction after previously having succeeded as the largest plantation in Indonesia.

Graphics. 1 Land Expansion of Government, Smallholders, and Private in the Palm Oil Sector in Indonesia, 1980 – 2022



Source: has been reprocessed from the data of Ditjenbun, 2021.

The expansion of palm oil plantations in Indonesia has been in production for a relatively long time, especially since the palm oil (CPO) commodity boom in the 1980s. Since then, the demand for CPO has increased dramatically which then prompted this industry to take steps to expand plantation land until now (Varkkey, Tyson, and Choiruzzad 2018) Indonesia's geographical conditions that are suitable for palm oil plants also encourage this expansion step to be chosen (Ishak et al. 2017; Ramdani and Lounela 2020). The state also sees that through this expansion step, Indonesia will be able to expand its reach of influence to remote parts of the archipelago. Then for the private sector and farmers that the expansion step is an effort to improve welfare and the economy (Varkkey 2012; Hutabarat 2019; Ichsan, Mulki, and Chairunnisa 2021; Andrianto, Komarudin, and Pacheco 2019).

The trend of land expansion of palm oil plantations in Indonesia as mentioned above, is still more visible from the approach of domestic economy, geography, and politics. However, the trend of land expansion can be seen more broadly from an international political economy approach (Balaam and Dillman 2014). Domestic economic, geographical, and political approaches are limited to viewing the land expansion from an internal Indonesia point of view. But from the international political economy approach is able to more broadly seeing the trend of land expansion, such as from the point of liberalization view which provides space for various parties to compete and develop their respective influences. In the context of the palm oil sector in Indonesia, liberalization has encouraged the expansion of Smallholders Plantation and Private Plantation land. Meanwhile, the Government Plantation experienced the opposite. So, it is interesting to examine, why does the Government Plantation not experience significant land expansion and tends to decline in the midst of liberalization that offers equal opportunities for plantation parties in Indonesia?

1.2 Literature Review

This article views that liberalization encourages palm oil land ownership in Indonesia to be open to all parties, both for domestic parties and for foreign parties. Liberalization encourages capital entry from various parties, competition for economic activity, freedom of the private sector, and private ownership of property. Liberalist believes liberalization to be the best way to prevent one party from having too much power (Balaam 2014). For economic liberals (also referred to as neoliberals), the state must play a limited role in the economy and society. Countries should reduce their economic activity so that markets can develop more efficiently. International free markets are seen as capable of encouraging industry, innovation, and mutual benefit through increased production (Letiche 1960; Balaam 2014).

Balaam dan Dillman (2014) mentioned some prominent liberals such as Adam Smith, David Ricardo, John Stuart Mill, John Maynard Keynes, Friedrich Hayek, Milton Friedman. The names mentioned above represent the development of liberal ideas of economics.

Adam Smith (1723-1790) was the father of modern economics. He based his thinking on classical economic liberalism. Classical economic liberalism has the motto *laissez faire, laissez-passer*, which means "let be, let pass,". The motto has the spirit of independence or "Hands off! Leave us alone!" from state interference. Similar to the views of classical economic liberals, Adam Smith held that individual freedom was the best alternative to prevent state power abuse. State power abuse can occur in the resource allocation or the economic activity organization (Balaam 2014).

In addition, Adam Smith believed in the cooperative and competitive attitude of human nature. The pursuit of individual interests does not lead to civil disobedience or anarchy; But *self-interest serves society's interests*. Liberals, while pursuing self-interest, are limited by competition among them. The competition will prevent any party from having too much power. Competition means also for the sake of achieving fairness between individuals (Balaam 2014).

David Ricardo (1772-1823) was also an adherent of the liberal views of classical economics. He believed that free trade boosted efficiency. Efficiency is a quality that liberals hold in high esteem, equal to freedom. Furthermore, Ricardo believed that individual success is "admirably connected" with the "good

universal". Just like Smith, Ricardo imagined that there was no conflict between people or nations. He also believed that international free markets stimulated industry, encouraged innovation, and created "general profits" by increasing production. Later, Ricardo argued that the positive results of trade were binding on the world nations. Through the open market, the world nations become a unified "universal society". Each nation is connected by interests between them and at the same time can weaken or completely eliminate the reason for war (Balaam 2014).

Liberal views experienced development from John Stuart Mill (1806-1873). John Stuart Mill argued that liberal ideas encouraged massive capitalism in Europe. Massive capitalism became a destructive force in the 18th century. Many people worked in factories but lived in much more miserable conditions than in the era of Adam Smith and David Ricardo. Thus, John Stuart Mill developed a philosophy of social progress based on "moral and spiritual progress rather than mere accumulation of wealth." John Stuart Mill encouraged a state presence to complement the market and correct market failures and weaknesses. The state may play a role in certain areas where the individual role is inadequate in promoting social welfare. The views of John Stuart Mill reflect the liberalism evolution in his time (Balaam 2014).

John Maynard Keynes (1883-1946) developed a liberalism school that is often called Keynesian economic theory, or sometimes referred as Keynesianism. Like John Stuart Mill, this stream is concerned with the negative impact of the market on society. According to John Maynard Keynes, *the invisible hand* is sometimes wrong and has a bad impact on society. This is evidenced by the *Great Depression* that lasted from 1929 into about ten years in the United States, the Asian crisis of 1997, and the global financial crisis of the following years (Balaam 2014).

John Maynard Keynes held the view that individuals tend to make very unwise decisions when faced with future uncertainty. *The paradox of thrift* is then chosen, which means that everyone spends less and saves more for future reserves. But when people spend less, it will have impacts on goods and services that are less purchased and less produced, then fewer workers needed, then there is a decline in public opinion. Therefore, according to John Maynard Keynes, it is important to combine the influence of the state and the market while still relying on the *invisible hand*. The state takes a larger but still limited constructive role. The state should use its power to improve the market, but not follow the aggressive line and nationalistic mercantilism (Balaam 2014).

Friedrich Hayek (1899–1992) and Milton Friedman (1912–2006) opposed Keynes's ideas. The increasing state role to provide economic security is a threat to individual freedom. It was the first step towards socialism or fascism. According to Hayek, the only way to gain security and freedom is to limit the state role and take advantage of the security provided by the market. Hayek added that in order to achieve sound economic goals, the state should not interfere in private economic decisions (Balaam 2014).

In line with Friedrich Hayek's views, Milton Friedman held that government "is the instrument by which we can achieve our freedom; But by concentrating power in political hands, it is also a threat to freedom." Friedman pushed for a return to Adam Smith's classical liberalism. The market can safeguard and protect freedom. The market naturally spreads power so that it can maintain freedom (Balaam 2014).

From the explanation above, the liberalism concept has developed according to its context. So that in its development, liberals became divided into two, namely *Orthodox Economic Liberals (OELs)* and *Heterodox Interventionist Liberals (HILs)*. *Orthodox Economic Liberals (OELs)* are *laissez-faire* liberals such as Adam Smith, David Ricardo, Friedrich Hayek, and Milton Friedman. While *Heterodox Interventionist Liberals (HILs)* are liberals who see the need for the state role such as John Stuart Mill and John Maynard Keynes. But fundamentally liberals believe that liberalization is the best way for the state, market, and society to achieve mutual benefit. Trade transactions that occur between parties are mutually beneficial in the nuances of competition.

1.3 Research Methods

This article uses qualitative methods. Qualitative methods refer to the collection, and non-numerical data analysis techniques or strategies. This method helps us understand the world around us and requires us to focus on the meanings and processes that establish international politics (Lamont 2015). So, this study will use non-numerical data in understanding and interpreting the condition of Government Plantation in Indonesia.

Data collection in this study was conducted through interviews, internet searches, and archives. The data that has been collected is then triangulated, or with the understanding of being seen and observed from different angles in order to obtain accurate data (Lamont 2015; Neuman 2014). Data collection through interviews was conducted with stakeholders, mainly Indonesian government authorities (Ministry of Environment and Forestry of the Republic of Indonesia-KLHK, Ministry of Agriculture of the Republic of Indonesia), leaders of palm oil entrepreneurs associations (GAPKI), leaders of palm oil smallholder associations in Indonesia (SAMADE, APKASINDO), environmental observers or NGOs (TuK), and *European Commission*.

Interviews are conducted in a semi-structured manner with elites who have adequate authority and understanding in their fields. These semi-structured interviews provide space for exchanging references and deepening the content of interviews with elites, compared to structured interviews that limit the list of questions, as well as unstructured interviews that are usually practiced against peers or close acquaintances (Lamont 2015).

In addition, data collection via the *internet* is done by *website* browsing, *online* communication such as email (Bryman 2012) or the latest WA, telegram, and others. Then, archival data collection includes agreements, white papers, policy statements, rules, or media reports. Archives consist of two forms according to the origin of the document source, namely the primary document source and the secondary document source. Primary document sources are originals, written by specific parties who have direct access to the information they express, or have first-hand experience. Secondary document sources are reference documents, and analysis of primary documents. This means that the document has been processed and analyzed by the other party (Lamont 2015). This research will use primary document sources and secondary document sources.

The collected data is then analyzed. In the qualitative approach, analysis begins when collecting data, but such analyses tend to be tentative and incomplete, so it is necessary to organize, integrate, and examine data systematically (Neuman 2014). Therefore, in this study, the action of data analysis was carried out

systematically. This research organizes, integrates, and examines data by linking the topic of palm oil land expansion and the concept of liberalization. In addition, this study also used narrative analysis strategies. Narrative analysis presents a chronological sequence of events from the actions of actors who have an important role. This type of analysis is required to present an explanation of the presented data (Neuman 2014).

This article consists of five (5) systematic arrangements as follows: preceded by background and problem formulation, literature review, explaining research methods, results and discussion, then ending with conclusions.

2. Results and Discussion

2.1 Palm Oil Plantations Inherited by Colonizers

The development of the palm oil industry has been started since the end of the 19th century by the Dutch colonial in the Dutch East Indies or Indonesia. By the 1930s, colonial Dutch had become the world's main producer of palm oil. But by the time of World War II and the Independence War, the industry had been neglected. The history of palm oil plantations inherited from the colonizers can be traced from 1911 – 1945.

At in 1911, *Societe Financiere (Socfin)* - a joint venture capital company of France and Belgium and has experience in the field of palm oil cultivation in West Africa - conducts professional palm oil cultivation in the Dutch East Indies (Indonesia). This cultivation aims to meet the demand of various industries in Europe and America. (Wong et al. 2021; PASPI 2017; Razif et al. 2017). Also in 1911, Adrien Hallet, a Belgian businessman, opened the first palm oil plantation on 6,500 acres (~2630 ha) in eastern Sumatra covering Pulo Raja (Asahan) and Sungai Liput (Aceh). In the same year, K. Schadt, a German businessman did the same thing by planting two thousand (2,000) palm oil seedlings in Tanah Itam Ulu. The year 1911 is seen as the birth year of Indonesian palm oil plantations with an economic orientation. (IOPRI 2020; PASPI 2023). In the following years, foreign investors such as from the Netherlands and Britain invested in palm oil plantations in the Dutch East Indies (Indonesia). Thus, the area of palm oil plantations increased to an area of 3,294 ha in 1915 (Razif et al. 2017).

In 1922, the area of palm oil plantations was 6,916 ha, then in 1925 it was 31,600 ha. In the 1930s *Deli Maatschappij* and U.S. companies engaged in cultivating palm oil on former tobacco plantations in Langkat and Asahan (Razif et al. 2017). So that the land area has increased as in 1938 it had reached an area of 90,000 ha, and in 1939 it was 100,000 ha. The 100,000 ha land is managed by 66 palm oil plantation companies (IOPRI 2020). Meanwhile, CPO exports have reached 250,000 (two hundred fifty thousand) tons in 1940 (PASPI 2023). CPO from the Dutch East Indies (Indonesia) is exported to the United States, Europe, Singapore, Japan, China, Hong Kong for household needs, automotive and industrial lubricants. Before World War II, more than 75% of CPO imported into the United States came from Sumatra. (Razif et al. 2017).

However, since the Japanese occupation period (1942-1945), the Indonesian palm oil industry has declined. Palm oil plantations are not maintained so they suffer damage (Pramudya 2018). Many palm oil plantation lands are converted to food crops (PASPI 2023). The land area of palm oil plantations was

reduced by 16% (Mustafa 2022). In the end, CPO production decreased and was only limited to meet the needs of Japan during World War II.

When Japan occupied Indonesia but on the other hand, the Allies who were opponents of Japan's war during World War II, conquered the Strait of Malacca. The Strait of Malacca is a sea passage for Japanese ships transporting CPO to Japan. Due to the war situation and conditions, CPO shipments to Japan experienced problems. CPO, which has been collected in warehouses, cannot be distributed. Japan then ignored the palm oil plantation sector (Historia 2019).

2.2 Palm Oil Plantations After Indonesia's Independence Old Orde

After the Dutch colonial and Japanese occupation period ended in Indonesia in 1945, automatically all areas, including palm oil plantation land passed into the hands of the Indonesian government. Around 84,000 – 100,000 ha of palm oil plantation land has been transferred to the Indonesian government (Mustafa 2022). The government at that time was called the Old Orde (1945 to 1965). The government at that time saw plantations including palm oil plantations as exploitative, thus contrary to the spirit of freedom that had just been obtained by the Indonesia nation. President Sukarno as the country's leader placed more emphasis on social equality (Pramudya 2018) and nationalist economic policies that discouraged foreign investment and exports (Choiruzzad, Tyson, and Varkkey 2021)

That policy had an impact on Indonesia's CPO production which only amounted to 56,000 tons in 1948/1949 (Mustafa 2022). It dropped dramatically compared to 1940 which even had time to export CPO of 250,000 (two hundred and fifty thousand) tons in 1940 (PASPI 2023). Then in 1958, CPO production amounted to 147,000 (one hundred forty-seven thousand) tons (Pramudya 2018). Although in 1958 CPO production increased, CPO exports fell to 17% of the global market share (Choiruzzad, Tyson, and Varkkey 2021). In 1961, palm oil (CPO) production in Indonesia amounted to 145,700 tons from the total world palm oil (CPO) production of 1.48 million tons. In 1962 it was 141,500 tons, in 1963 it was 148,300 tons, in 1964 it was 164,000 tons. Furthermore, in 1965 it amounted to 156,700 tons of the total world palm oil (CPO) production of 1.58 million tons (Ourworldindata 2021).

In addition, if in 1939 the area of palm oil plantations had reached an area of 100,000 ha, but in 1961 it dropped to an area of 70,000 ha. In 1961 the total area of world palm oil plantations was 3.62 million ha. In 1962 the area of palm oil plantations in Indonesia still remained at 70,000 ha. Then in 1963 it rose to an area of 75,000 ha, in 1964 it was 80,000 ha. Then in 1965 it still remained an area of 80,000 ha from 3.62 million ha of the world's palm oil plantations (Ourworldindata 2021). Although the area of palm oil plantations had decreased, it slowly increased until 1965. During this Old Orde era, the palm oil plantation industry was seen as "mati suri" (Ishak et al. 2017).

2.3 New Orde (1966 – 1998)

The New Orde under the leadership of President Suharto, began from 1966 to 1998. (Pramudya 2018; Brad et al. 2015; Andrianto, Komarudin, and Pacheco 2019). During this time, political power was concentrated with President Suharto. Then, private companies, both from within and outside the country, got space to

invest in the palm oil plantation sector (Gellert 2015). In the development context of the palm oil industry, the New Orde period can be divided into 2 (two) important periodization, namely the Interventionist State period (1966-1990) and the Economic Liberalization period (1990-1997) (Pramudya 2018).

2.4 Interventionist State (1966-1990)

In this period of the interventionist state, the Suharto government played a central role. The government mobilizes State-Owned Enterprises (BUMN) and banks in an effort to transform the economy. BUMN and banks directly carry out the production process, CPO processing, smallholder development, credit arrangements for smallholders, and private palm oil plantation companies. Furthermore, in an effort by the government to enlarge and expand its access to domestic markets abroad, the government involves smallholders and private plantation companies in the commodity chain. The involvement of smallholders and private plantation companies is slowly shifting the dominance of BUMN (Pramudya 2018).

The growth of the palm oil industry in Indonesia is supported by the World Bank. The World Bank sees palm oil as an instrument of rural development and a potential export commodity. The palm oil plantation sector is gradually liberalizing. In 1974 the introduction of the Nucleus People's Plantation (PIR) model. In 1977, the construction of the National Private Large Plantation (PBSN) (PPKS 2023). This has an impact on increasing and land ownership of palm oil plantations. Until 1986, the largest land owners were Government Plantation, followed by Private Plantation, then Smallholders Plantation. In 1987, Smallholders Plantation briefly rose to second place. But in 1988, the order returned to its original position, namely Government Plantation, followed by Private Plantation, then Smallholders Plantation. However, from 1989-1990, the largest owner of palm oil plantation land was Private Plantation, followed by Government Plantation, then Smallholders Plantation (Ditjenbun 2021).

2.5 Economic Liberalization (1990-1998)

During this period, the government had to reduce its intervention, especially against state banks. This was driven by declining state revenues from oil and gas, as well as rising external debt that weighed on the state budget. State banks can ignore government requests if they are deemed not yet urgent. On the other hand, private banks are experiencing rapid development. Private banks massively provide asset for large companies to expand palm oil plantations (Pramudya 2018).

In 1990 – 1991, the largest land owners in order were, Private Plantation, followed by Government Plantation, then Smallholders Plantation. However, since 1992 - 1998, the largest land owner in order is Private Plantation, followed by Smallholders Plantation, then Government Plantation (Ditjenbun 2021). The percentage of land ownership of Private Plantation from 1990 to 1998, gradually increased. If in 1990 and 1991 the percentage of ownership was 41%, then from 1992 to 1998 sequentially increased annually to 43%, 45%, 47%, 47%, 48%, 54%, 59%. Private Plantation can slowly but surely replace the position of Government Plantation which in previous years occupied the first position in terms of land area.

Then the percentage of ownership of Smallholders Plantation land area also increased. If in 1990 and 1991, it was in third position with percentages of 26% and 29%. But from 1992 to 1998 it was in second place with percentages of 30%, 31%, 32%, 33%, 33%, 28%, 25%. Meanwhile, the percentage of land ownership of Government Plantation from 1990 to 1998, gradually decreased. If in 1990 it was 33%, but in subsequent years it sequentially decreased to 30%, 27%, 24%, 21%, 20%, 19%, 18%, 16%. In this period of economic liberalization, Private Plantation and Smallholders Plantation are increasingly expansive in expanding their plantation land. Meanwhile, the Government Plantation is not expansive in expanding its land.

From the availability of this land area, palm oil production (CPO) in Indonesia has increased. In 1990, palm oil production (CPO) in Indonesia amounted to 2,412,612 tons. Furthermore, it increased in 1991 to 2,657,600 tons, in 1992 amounted to 3,266,250 tons, in 1993 amounted to 3,421,449 tons, and in 1994 amounted to 4,008,062 tons. Furthermore, in 1995, palm oil production (CPO) in Indonesia amounted to 4,479,670 tons, in 1996 amounted to 4,898,658 tons, in 1997 amounted to 5,448,508 tons, and in 1998 amounted to 5,930,415 tons. From 1990 – 1998, there was an increase in the volume of CPO in Indonesia by 145.8%.

2.6 Reformation

In this study, the reform period will be divided into 3 (three) periodisation in accordance with the development and dynamics of domestic and international political economy, especially those that have a direct impact on the development of the palm oil industry in Indonesia. The division of periodization in this reform period is the financial crisis period (1998-2006), the economic revitalization period (2006-2019), the pandemic (2019-2022).

2.7 Financial Crisis (1998 – 2006)

The onset of the Asian monetary crisis in 1997, contributed to the downfall of President Suharto's government in May 1998. In the midst of the monetary crisis, the *International Monetary Fund* (IMF) as an international body providing financial assistance to its member countries, then restructured the economic and political system in Indonesia. On January 15, 1998, Indonesia and the IMF signed a *Letter of Intent* and this encouraged the entry of foreign investment into Indonesia. In February 1998, the government removed restrictions on foreign investment in the palm oil plantation sector. In March 1998, restrictions on major trade and retail were lifted. (Choiruzzad, Tyson, and Varkkey 2021).

In 1999, Law Number 22 of 1999 concerning decentralization or the central government transferred authority to local governments, including the authority to issue palm oil plantation permits. This is done for the sake of national political stability. The central and local governments limit their role in terms of regulation of the palm oil industry sector. The restructuring of the economic system that facilitates foreign investment, and the decentralized political system encourages increased land expansion and palm oil production (CPO) (Choiruzzad, Tyson, and Varkkey 2021; Pramudya 2018).

From 1998 to 2006, Private Plantation owned the largest area of palm oil plantations in Indonesia. Then, followed by Smallholders Plantation, then finally

by Government Plantation. From 1998 to 2006, the amount of land ownership of Private Plantation ranged from 47% to 59%. Then the large ownership of Smallholders Plantation, ranging from 25% to 43%. Then the size of the Government Plantation ownership, ranging from 10% to 16%. In terms of land ownership, Private Plantation and Smallholders Plantation are the main players in the development of palm oil plantations. Meanwhile, Government Plantation, with only the highest land ownership at 16%.

It is also important to look further into how much each palm oil plantation has increased its land area. From 1998 to 2006, the increase in land area of Private Plantation ranged from -11% to 31%. In 1998, the land area of Private Plantation was recorded at 211,3050 ha, then increased in 1999 to 2,283,755 ha or an increase of about 8%. In 2000 it increased again by about 5% to 2,403,194 ha. In 2001 it increased by about 6% to 2,542,457 ha. In 2002 it increased again by about 3% to 2,627,068 ha. In 2003 it increased by 5% to 2,766,360 ha. But in 2004 it had decreased by -11% to 2,458,520 ha. Then in 2005 it increased by 4% to 2,567,068 ha. In 2006 it experienced a significant increase of up to 31% to 3,357,914 ha.

In addition, from 1998 to 2006, the increase in the land area of Smallholders Plantation ranged from 3% to 34%. In 1998, the area of Smallholders Plantation was recorded at 890,506 ha, then increased in 1999 to 1,041,046 ha or an increase of about 17%. In 2000 it increased again by about 12% to 1,166,758 ha. In 2001 it increased by about 34% to 1,561,031 ha. In 2002 it increased again by about 16% to 1,808,424 ha. In 2003 it increased by 3% to 1,854,394 ha. In 2004 it increased by 20% to 2,220,338 ha. Then in 2005 it increased 6% to 2,356,895 ha. In 2006 it increased 8% to 2,549,572 ha. People's Plantation consistently experienced an increase in plantation land area from 1998 to 2006.

Then the increase in the land area of Government Plantation from 1998 to 2006 ranged from -13% to 30%. In 1998, the area of Government Plantation was recorded at 556,640 ha, then increased in 1999 to 576,999 ha or an increase of about 4%. In 2000 it increased again by about 2% to 588,125 ha. In 2001 it increased by about 4% to 609,947 ha. In 2002 it increased again by about 4% to 631,566 ha. In 2003 it increased by 5% to 662,803 ha. In 2004 it decreased by -9% to 605,865 ha. Then in 2005 it decreased again by -13% to 529,854 ha. In 2006 it increased by 30% to 687,428 ha. Throughout 1998 to 2006, the Government Plantation experienced two consecutive land area declines in 2004 and 2005.

As well as the restructuring of the economic system that facilitates foreign investment, and the decentralized political system has encouraged increased land expansion by Private Plantation and Smallholders Plantation. But on the other hand, the Government Plantation, from year to year is increasingly unable to compete in expanding its palm oil plantation land.

Palm oil production (CPO) in 1998 – 2006 also showed an increase. The highest increase occurred in 2006 amounting to 5,489,233 tons or 46.2%. When compared between 1998 and 2006, the increase in palm oil production (CPO) amounted to 11,420,433 tons or 192.5%.

2.8 Economic Revitalization (2006-2019)

The period of economic revitalization refers to the recovery of the national economy supported by the palm oil sector. If from 1998 to 2006, Indonesia was still hit by a monetary crisis, then since 2006, the Indonesian economy has begun to rise slowly. In 2006 the government launched the KPEN-RP (Credit for

Bioenergy Development and Plantation Revitalization) scheme, which targets plantations of no more than 4 (four) hectares for farmers. Most of the credit goes to open new plantations rather than replanting. The plantation revitalization program lasted until 2014. This financing scheme was discontinued in early 2015, soon after the new government was inaugurated.(Pramudya 2018). Then in 2017, the Palm Oil Replanting Program (PSR) was carried out for farmers to increase productivity and sustainability (PPKS 2023).

In the period of the year 2006 to 2019, Private Plantation are the largest owners of palm oil plantations in Indonesia. Private Plantation even own land up to 50% and above. Private Plantation have land ranging from 50% to 55%. Then the large ownership of Smallholders Plantation, ranging from 39% to 42%. Then, the size of the Government Plantation ownership, ranges from 4% to 10%. In terms of land ownership, Private Plantation are the main players accompanied by Smallholders Plantation in determining the development of palm oil plantations in Indonesia. Meanwhile, the Government Plantation, is declining, if in the previous period land ownership could reach the highest by 16%, but in the period 2006 to 2019 it was only the highest by 10%.

From 2006 to 2019, the increase in land area of Private Plantation ranged from -4% to 34%. In 2006, the land area of Private Plantation was recorded at 3,357,914 ha, then increased in 2007 to 3,408,416 ha or an increase of about 2%. In 2008 it increased again by about 14% to 3,878,986 ha. In 2009 it increased by about 8% to 4,181,369 ha. In 2010 it increased again by about 4% to 4,366,617 ha. In 2011 it increased by 4% to 4,561,966 ha. In 2012 it increased by 4% to 4,751,868 ha. In 2013 it increased by 13% to 5,381,166 ha. In 2014 it increased by 4% to 5,603,414 ha. In 2015 it increased by 7% to 5,980,982 ha. In 2016 it decreased -4% to 5,754,719 ha. In 2017 it increased by 34% to 7,712,687 ha. In 2018 it increased by 2% to 7,892,706 ha. In 2019 it increased by 1% to 7,942,335 ha.

In addition, from 2006 to 2019, the increase in the land area of Smallholders Plantation ranged from 1% to 11%. In 2006, the area of Smallholders Plantation was recorded at 2,549,572 ha, then increased in 2007 to 2,752,172 ha or an increase of about 8%. In 2008 it increased again by about 5% to 2,881,898 ha. In 2009 it increased by about 6% to 3,061,413 ha. In 2010 it increased again by about 11% to 3,387,257 ha. In 2011 it increased 11% to 3,752,480 ha. In 2012 it increased by 10% to 4,137,620 ha. Then in 2013 it increased 5% to 4,356,087 ha. In 2014 it increased by 2% to 4,422,365 ha. In 2015 it increased again by about 3% to 4,535,400 ha. In 2016 it increased by about 4% to 4,739,318 ha. In 2017 it increased again by about 20% to 5,697,892 ha. In 2018 it increased by 2% to 5,818,888 ha. In 2019 it increased by 1% to 5,896,775ha. Smallholders Plantation consistently experienced an increase in plantation land area throughout 2006 to 2019.

Then the increase in the land area of Government Plantation from 2006 to 2019 ranged from -10% to 7%. In 2006, the area of Government Plantation was recorded at 687,428 ha, then decreased in 2007 to 606,248 ha or decreased by about -12%. In 2008 it decreased again by about -1% to 602,963 ha. In 2009 it increased by about 5% to 630,512 ha. In 2010 it increased again by about 0.16% to 631,520 ha. In 2011 it increased 7% to 678,378 ha. In 2012 it increased by 1% to 683,227 ha. Then in 2013 it increased by 7% to 727,767 ha. In 2014 it increased 0.17% to 729,022 ha. In 2015 it increased again by about 2% to 743,894 ha. In 2016 it decreased by about -5% to 707,428 ha. In 2017 it decreased again by about

-10% to 638,143 ha. In 2018 it decreased -4% to 614,756 ha. In 2019 it increased by 0.45% to 617,501 ha.

Since 2006, Indonesia has become the world's largest producer of palm oil (CPO), replacing Malaysia, with a 52% contribution to the world's palm oil supply (Purnomo et al., 2016). Throughout 2006 – 2019, palm oil production (CPO) increased. Among the years mentioned above, the highest increase occurred in 2017 amounting to 2,847,257 tons or 25.4%. When compared between 2006 and 2019, the increase in palm oil production (CPO) amounted to 7,861,697 tons or 119.2%.

2.9 COVID-19 Pandemic (2019 - 2022)

The initial date for the spread of COVID-19 was set on December 31, 2019 when the health authorities of the city of Wuhan, China issued an alert regarding a series of respiratory health cases related to the virus (BBC 2020). COVID-19 was first detected in Indonesia on March 2, 2020. COVID-19 was declared a pandemic on March 11, 2020 by WHO (Kementerian Kesehatan 2022). On May 5, 2023, WHO declared the end of COVID-19 a global health emergency (WHO 2023).

The COVID-19 pandemic forced countries around the world to implement *lockdowns*. Almost all cross-border activities stopped. Import exports are severely restricted. This has a negative effect on the economic level of each country (World Bank, 2020). The volume of CPO production and exports has decreased. However, in terms of land expansion or expansion, palm oil plantations continue to show an increasing trend, both in Smallholders Plantation, Government Plantation, and Private Plantation in Indonesia (Ditjenbun 2021).

However, it remains a highlight, that the land area and land ownership of Government Plantation, from year to year have decreased. The land area of Government Plantation decreased from 2019 to 2022. In 2019 it was 617,501 ha then decreased in 2020 by -8% to 565,241 ha. In 2021 it decreased by -3% to 550,333 ha. Then in 2022 it rose by 2% to 559,370 ha. Likewise, the percentage of land ownership of Government Plantation in 2019, 2020, 2021, and 2022 is only 4%, 4%, 3%, 3% respectively. Government Plantation in terms of land area and land ownership are declining and shrinking in efforts to develop the palm oil industry in Indonesia.

However, during the COVID-19 pandemic, there was a decrease in CPO production from 2019 to 2022. In 2020, CPO production decreased by 1,378,402 tons or minus 2.92% compared to 2019. In 2021, it also decreased by 1,998,767 tons or minus 4.24% compared to 2019. Likewise, in 2022, it decreased by 1,539,355 tons or minus 3.26 % compared to 2019.

2.10 Liberalization of Palm Oil Sector

Liberalization of palm oil sector in Indonesia is able to encourage an increase in land area and CPO production. Land ownership of palm oil plantations is no longer only Government Plantation, but also Smallholders Plantation and Private Plantation. Liberalization encourages the entry of capital from various parties, competition for economic activity, freedom of the private sector, and private ownership of *property*. Liberals believe liberalization to be the best way to prevent one party from having too much power (Balaam 2014). For liberals, the

state should reduce its economic activity so that markets can develop more efficiently. International free markets are seen as capable of encouraging industry, innovation, and mutual benefit through increased production (Letiche 1960; Balaam 2014).

Private Plantation are the owners of the largest palm oil land today. Private Plantation with all the completeness of its legality allow it to have access to banking or other financial institutions. Private Plantation will experience development in the following years (World Bank 2020). When palm oil plantations in Indonesia were liberalized, especially in 1997/1998, investors were vying for Private Plantation. Malaysian companies are the largest investors in the palm oil sector in Indonesia. The Malaysian company owns a large area of plantation land in Indonesia. In 2014, for example, several Malaysian companies, namely Minamas Gemilang (Sime Darby) owned palm oil plantations covering an area of 289,000 ha, then Genting Plantations covering an area of 193,000 ha, KLK covering an area of 120,000, TSH Resources covering an area of 109,000 ha (Varkkey 2023).

In 2017, the land area of Private Plantation was around 7,712,687 ha (Ditjenbun 2021). An area of 3,411,028 ha is owned by 25 companies such as; Sinar Mas Group covering an area of 502,847 ha, Salim Group covering an area of 330,630 ha, Jardine Matheson Group covering an area of 290,961 ha, Surya Dumai Group covering an area of 210,001 ha, Triputra Group covering an area of 194,000 ha, Harita Group covering an area of 182,675 ha, Wilmar Group covering an area of 163,155 ha, Royal Golden Eagle Group covering an area of 161,890 ha, Darmex Agro Group covering an area of 155,000 ha, Musim Mas Group covering an area of 148,970, Rajawali Group covering an area of 148,000 ha, Sampoerna Group covering an area of 136,000 ha, Batu Kawan Group covering an area of 117,043 ha, Genting Group covering an area of 100,122 ha, DSN Group covering an area of 90,288 ha, Tanjung Lingga Group covering an area of 82,520 ha, Kencana Agri Group covering an area of 68,483 ha, Anglo-Eastern Group covering an area of 64,375 ha, Korindo Group covering an area of 57,157 ha, Sungai Budi Group covering an area of 54,500 ha, Austindo Group covering an area of 51,975 ha, Boon Siew Group covering an area of 34,257 ha, TPS Group covering an area of 24,687 ha, Provident Agro covering an area of 24,641 ha, and IOI Group covering an area of 16,851 ha. Even when included *with land banks* that have not been planted with palm oil, it can reach an area of 5,931,768 ha (TuK 2018).

Recently, Chinese companies have begun to enter the palm oil sector in Indonesia. There are at least two largest Chinese companies active in the palm oil industry in Indonesia. The two companies are Julong Group and ZTE (Zonergy) Agribusiness. As of 2019, Julong Group owns nearly 200,000 hectares of palm oil plantations in Indonesia. In 2021, ZTE owned 30,321 hectares of palm oil concessions in Central Kalimantan (Wijaya and Choiruzzad 2022)

Smallholders Plantation indeed, it seems to be able to offset the increase in land area and the amount of CPO production. But actually, the development of Smallholders Plantation is relatively vulnerable. Vulnerable in the sense that the Smallholders Plantation is owned by smallholders. The initial capital owned by these smallholders is generally limited. Smallholders Plantation is around 80% in the production forest area so its legality is problematic. Smallholders Plantation access to loans from banks or other financial institutions, and government

assistance is very limited. The price of the production is also generally below the market price. We can imagine how vulnerable this People's Plantation (PR).

In online interviews were on June 11, 2023 with Berlin Samosir, Chairman of DPD APKASINDO KOBAR who is domiciled in Kalimantan, and on June 12, 2023 with SAMADE Vice Chairman, Abdul Aziz who lives in Riau said that palm oil farmers open palm oil plantation land as a way for them to survive from the agricultural or plantation sector. Palm oil plantations are seen as more flexible and less time-intensive and labor-intensive when compared to other types of farming. The plantation is also the hope of farmers to be able to send their children to college. The problem is that the palm oil plantations they manage are currently within production forest lands or areas. The farmers also cannot be called prosperous.

Other the case with the Government Plantation. Government Plantation has no legality issues. But strangely, the Government Plantation was unable to attract investors to help increase land area and CPO production. When looking at statistical data, land area and CPO production have not increased cynically, even recently gradually declining. The percentage of land area and CPO production is only around 3% and 5%. The impact can be seen when the government cannot meet domestic cooking oil needs quickly in 2022. This means that the state relies too much on other plantations to supply the needs of the Indonesian people.

It must be understood that the presence of the Government Plantation is to maintain the social condition of the people. In an interview with TuK, on June 12, 2023 at TuK's office in South Jakarta, based on their findings on the ground that employment in the palm oil plantation sector in Indonesia resulted in gender discrimination. This is driven by the use of large human labour to lift large loads. Companies still prefer the use of human labour to save operational costs compared to relatively more expensive technology.

The presence of Government Plantation is not solely on the orientation of the market economy but on the stability of the social conditions of the community. Expecting Smallholders Plantation to strive for supply stability is also not appropriate. Smallholders Plantation is still in the process of learning. Smallholders Plantation is still fighting to its own extent. Expecting Private Plantation to strive for supply stability is also inappropriate. Private Plantation, the orientation is to make the most profit. If the price of CPO is greater abroad, Private Plantation will certainly sell it abroad. It is impossible for Private Plantation to sell their CPO domestically at a cheaper price. If that happens, it means that there is something strange or there is a certain party whose power is higher or greater to condition it to be done.

Government Plantation seems to be losing its competitiveness. The glory of the Government Plantation gradually faded. The liberalization of the palm oil sector has shifted Government Plantation to a marginalized position. The investors did not place their capital in the Government Plantation. The state also seems to have no intention to develop Government Plantation into competitive plantations. With such conditions, the "extinction" of Government Plantation is just a matter of time.

Liberalization demands competition between Government Plantation, Smallholders Plantation, and Private Plantation. Private Plantation with large capital support from investors are able to win the competition. Smallholders Plantation with the capital support of each community try to compete to meet

market needs. However, Government Plantation experienced a decline without significant support from the state or private sector.

Government Plantation have the potential to further develop. Government Plantation can more easily get support from the government because it is a state-owned enterprise. The state-owned enterprise has all sufficient facilities and infrastructure to support the development and expansion of Government Plantation land. In addition, Government Plantation with certain mechanisms can cooperate with private parties. In short, the Government Plantation has great potential to develop its land area like other plantations.

In an interview with the head of the *European Commission-Trade* delegation on June 20, 2023 at Jasmin 7 Meeting Room, LG Level, Ayana Midplaza Hotel, it was conveyed that the European Union has no problem with the expansion of palm oil plantation land. The EU will only take issue with it if the land expansion is the result of deforestation. *The European Commission-Trade* also said that the European Union never intended to ban Indonesian CPO from entering the EU market. The European Union has also never intended to oppose any country on the issue of palm oil. The rules made by the European Union such as RSPO, RED II, EUDR must be understood as sustainability efforts that will benefit all parties. The European Union wants all parties to pay more attention to the issue of sustainability than other issues that can disrupt Indonesia's trade relations with the European Union.

3. Conclusion

The liberalization of the palm oil plantation sector in Indonesia has encouraged the rapid development of this industry. But when observed in more detail, liberalization brought the Government Plantation to the brink of "extinction". In the midst of the trend of land expansion by other plantations to increase production yields, Government Plantation experienced a decline. Government Plantation is unable to attract private investment. Government Plantation was unable to attract the attention of the Government to provide direct support. Liberalization does not provide more benefits for Government Plantation.

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