

PAKISTAN AS GATEWAY FOR EXPANSION OF THE INDONESIAN PALM OIL EXPORT MARKET IN SOUTH ASIA, CENTRAL ASIA AND MIDDLE EAST

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RESUME

Pakistan's large palm oil consumption makes this country become one of the main export destinations for Indonesian palm products. The large population, increasing purchasing power and shifting tastes are factors that drive the large consumption of Pakistani palm oil, and are even expected to continue to increase in the future.

Since the implementation of the IP-FTA in 2013, Indonesia's palm oil exports to Pakistan have continued to increase until it has succeeded in shifting the dominance of Malaysia as the main exporter of the palm oil market in that country. Although facing obstacles in the form of a PFA's recommendation that prohibits the consumption of Vanaspathi Ghee from palm oil, but Indonesia's palm oil export performance remains high. Even in the current pandemic and global economic recession, Indonesian export performance of palm oil especially RPO products to Pakistan, reached 1.82 million tons with an export value of USD 1.14 billion, or higher than the same period in 2019.

Pakistan also has the potential as a gateway to access the palm oil market in South Asia, Central Asia, and the Middle East and its surrounding, through the development of a trade and investment hub for Indonesian palm products. This is because Pakistan has several advantages such as a strategic geographical location and is supported by the development of facilities in the context of the implementation of the PRC Pakistan Economic Corridor/China Pakistan Economic Corridor, and also the incorporation of Pakistan in trade cooperation both bilateral and regional which can have implications for ease of market access due to relaxation of tariff and non-tariff barriers with trading partner countries.

The development of hubs and trade liberalization are also able to provide greater economic benefits such as export foreign exchange, real GDP, and welfare that can be felt by Indonesia, Pakistan, and other regional countries that are involved in the palm oil trade. Therefore, it is necessary to immediately build a hub through the development of a Joint Venture between Indonesian and Pakistani business actors by implementing three investment options, namely the development of storage, industrial refinery, or downstream industries which located in Gwadar or Karachi.

INTRODUCTION

Pakistan's vegetable oil market is quite large, even being recorded as the eighth largest vegetable oil consumer in the world with a volume of 4.72 million tons in 2019 (USDA, 2020). This is driven by the large population of the country which is estimated to reach 220 million people in 2020. The increase in purchasing power of the middle-income class is also a factor that encourages increased consumption of vegetable oil in Pakistan. In addition, the shifting in the tastes of the Pakistani both in urban and rural areas from consuming animal oil to vegetable oil has made the demand for these products even greater.

Based on the consumption structure of vegetable oil in Pakistan (PASPI, 2019), palm oil is the main vegetable oil consumed with a proportion of 66 percent or 3.19 million tonnes. Palm oil is used as a raw material by the food industry to produce Vanasphati Ghee, cooking oil, margarine, shortening, and is also used by the cosmetic and toiletries (soap) industry. The large consumption of palm oil is due to the lower price of palm oil compared to other vegetable oils such as rapeseed oil, corn oil, or soybean oil. To fulfill the growing demand for palm oil, the Pakistan Government imports palm oil, which mostly comes from Indonesia.

Not only can fulfill Pakistan's domestic market demand, Indonesia can also use Pakistan as a gateway to access the palm oil market in South Asia, Central Asia, and Middle East. This opportunity can be utilized by making Pakistan a trade and investment hub for Indonesian palm oil products. These potentials and opportunities have previously been studied by a research team led by Firdaus et al. (2020) from ITAPS Faculty of Economics and Management, IPB University. Then the results of the study are contained in a book entitled "*Pengembangan Ekspor*

Sawit Melalui Hub Perdagangan dan Investasi".

Therefore, this paper aims to shows the development of Indonesia's palm oil export performance to Paksitasn and also summarizes the results of a study of the potential of Pakistan as a hub for Indonesian palm oil exports.

POSITIVE TREND OF INDONESIAN PALM OIL EXPORTS TO PAKISTAN

Pakistan is the main export destination country for Indonesian palm oil which have position in ranks 4th after India, China, and the European Union, with a share reaching 7.9 percent in 2019 (Trademap, 2020). Indonesia's palm oil product exports to Pakistan have continued to show a positive trend since the implementation of the Indonesia-Pakistan Preferential Trade Agreement (IP-PTA) in 2013. Even Indonesia has succeeded in shifting Malaysia's dominance as the main exporter of palm oil in Pakistan until now. This is confirmed by the Janmohammed's presentation (2020), which states that Indonesia's share in the Pakistani palm oil market in 2019 is 80 percent, while Malaysia is only 20 percent.

The export performance of Indonesian palm oil (CPO and RPO) to Pakistan in 2010-2019 is shown in Figure 1. It can be seen that most of the palm oil products exported by Indonesia to Pakistan are in the form of Refined Palm Oil (RPO). This is because the Pakistani industry prefers to use RPO especially Olein, which is widely used as a raw material for producing Vanasphati Ghee. The export value of Indonesian RPO to Pakistan in 2010 was only USD 64.42 million and has increased nearly 20 times since the implementation of PTA to USD 1.35 billion. However, the RPO's export value was decreased in 2019 to USD 1.11 billion.

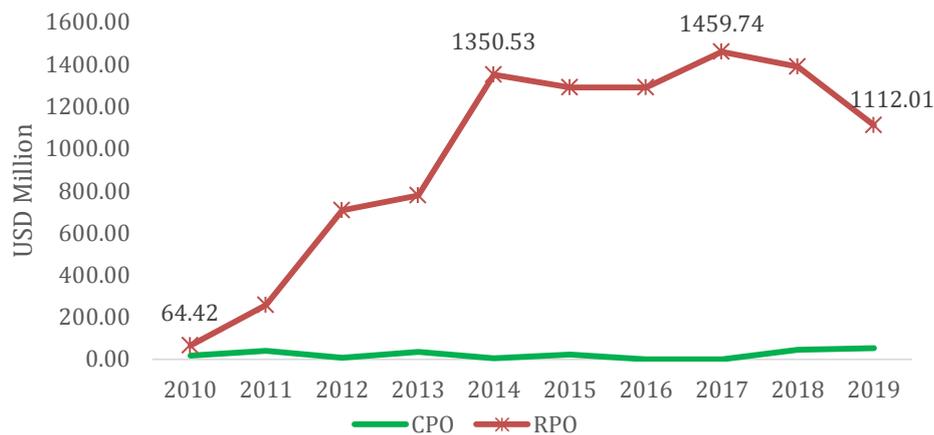


Figure 1. Development of Indonesian CPO and RPO Exports to Pakistan
(Source: ITC Trademap, 2020)

The decline in the RPO's export value in the 2017-2019 period, was not only felt by Indonesia but also felt by Malaysia as a competitor in the Pakistan's palm oil market. One of the factors that caused the decline in export performance was the recommendation from the Punjab Food Authority (PFA) about banning the consumption of Vanasphati Ghee from palm oil, because it is considered endangered health since October 2017. However, after going through various meetings, both official and unofficial, and discussions between the Pakistan Government and private parties regarding these constraints, finally, the recommendation to ban the consumption of Vanasphati Ghee from palm oil was officially abolished at the Pakistan Standards & Quality Control Authority (PSQCA) meeting in Karachi on April 10, 2019.

The positive trend in the performance of Indonesian palm oil exports to Pakistan has also continued even during the pandemic and global economic recession. Pakistan is one of the export destinations of Indonesian palm oil, with the value of palm oil exports, especially RPO products has increased compared to the previous period in 2019 (BPS, 2020). Indonesia's RPO exports to Pakistan reached 1.82 million tons with an export value of USD 1.14 billion for the

January-October 2020 period. When compared with the export performance of RPO in the same period in 2019, which was only 1.70 million tons or valued at USD 857.67 million.

THE POTENTIAL OF PAKISTAN AS INDONESIA'S PALM OIL EXPORT HUB

Pakistan's geographic position is relatively advantageous because it is located in the middle of South Asia and bordered by two countries that have the largest population are China and India, and have access to reach Central Asia. Its strategic location is also supported by the development of economic corridor, namely the PRC Pakistan Economic Corridor (or also known as the China Pakistan Economic Corridor/CPEC) as part of the One Belt One Road PRC policy that connects Xinjiang and Gwadar Port in South Pakistan. The development of economic corridors includes the construction and improvement of infrastructures such as toll roads, railways, oil and gas pipelines, and massive fiber-optic networks, is expected will increase trade activities both intra (between the two regions) and extra (with other countries).

have advantages and disadvantages (Tugio, 2020). Gwadar is a bonded area that is recently developed by the Government of Pakistan with the provision of tax/fiscal incentives with a long enough duration to stimulate industrial development in that location. Meanwhile, Karachi is considered to be more ready from the aspects of infrastructure, human resources, and the market (consumers) to become a location for the development of a joint venture for the palm oil industry, because so far, this region has become the center of business in Pakistan. Malaysia has long used Karachi as the location for the palm oil processing industry in Pakistan, so Firdaus et al. (2020) recommended the location of joint ventures for the palm oil industry located in the Gwadar.

The study conducted by the IPB University research team also analyzed the simulation impact of the trade liberalization scheme followed by the development of accelerated trade and investment hubs in the PRC Pakistan Economic Corridor/China Pakistan Economic Corridor using the CGE model and the GTAP analysis method. The result of study shows that the simulation scheme will increase Indonesian palm oil export to Pakistan and regional markets. In addition, it is also expected to improve economic indicators such as welfare, real GDP, investment, household consumption, and government spending, where this positive impact will be felt by Indonesia, Pakistan, and the surrounding countries.

The explanation above shows the urgency of developing a trade and investment hub through the development of joint ventures for the palm oil processing industry in Pakistan as a gateway to expand access to the palm oil export market for Indonesia as well as increasing economic benefits for all countries involved in the trade. The results of the study by the IPB University team will become policy recommendations that are immediately followed up by palm oil stakeholders such as the Indonesian Government, palm oil industry players, and researchers.

CONCLUSION

Pakistan's large palm oil consumption makes this country become one of the main export destinations for Indonesian palm products. Even since the implementation of the IP-FTA in 2013, Indonesia's palm oil exports to Pakistan have continued to increase until it has succeeded in shifting the dominance of Malaysia as the main exporter of the palm oil market in that country. Although facing obstacles in the form of PFA's recommendation that prohibits the consumption of Vanaspathi Ghee from palm oil, but Indonesia's palm oil export performance remains high. Even in the current pandemic and global economic recession, Indonesian export performance of palm oil especially RPO products to Pakistan, reached 1.82 million tons with an export value of USD 1.14 billion, or higher than the same period in 2019.

Pakistan also has the potential as a gateway to access the palm oil market in South Asia, Central Asia, and the Middle East and its surrounding, through the development of a trade and investment hub for Indonesian palm products. The development of hubs and trade liberalization are also able to provide greater economic benefits such as export foreign exchange, real GDP, and welfare that can be felt by Indonesia, Pakistan, and other regional countries that are involved in the palm oil trade. Therefore, it is necessary to immediately build a hub through the development of a Joint Venture between Indonesian and Pakistan business actors by implementing three investment options, namely the development of storage, industrial refinery, or downstream industries which located in Gwadar or Karachi.

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