

THE PALM OIL INDUSTRY IS PART OF A “DEFENSIVE FORTRESS” AGAINST GLOBAL ECONOMIC RECESSION

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RESUME

IMF and World Bank have predicted that countries will experience negative economic growth due to the economic recession accompanied by the global food and energy crisis. Although it is estimated that Indonesia's economic growth won't decline, the domino effect of the global recession also has the potential to drag them into a recession. For this reason, mitigation efforts are needed. The national palm oil industry can play a role in fortifying Indonesia from the potential economic recession through its contribution to creating a trade balance surplus to increase reserves. The palm oil industry also has great potential to maintain food and energy security at the local, national and global levels. This shows the contribution of the palm oil industry as part of the solution to the global recession.

INTRODUCTION

All countries in the world, including Indonesia, must be prepared to face the global economic recession in 2022/2023. For the third time in 2022, the International Monetary Fund (IMF) corrected world economic growth, which experienced a decline. In their report, *World Economic Outlook: Gloomy and More Uncertain*, published in July 2022, they warned all countries that the global economy is increasingly bleak and full of uncertainty and that there would be an economic recession accompanied by high inflation in 2022/2023.

The current global inflation is caused by the increase in the production cost of goods and services (cost-push inflation) triggered by supply chain disruptions due to the COVID-19 pandemic and climate anomaly. Then geopolitical issues, especially the Russia-Ukraine war, also disrupted the global supply of energy, food, and fertilizers. The World Bank report (2022) in April 2022, entitled *"Commodity Markets Outlook: The Impact of the War in Ukraine on Commodity Markets,"* revealed that the increase in global commodity prices until 2024 has triggered a global food and energy crisis.

Every country needs to take mitigation against the global economic recession accompanied by the energy and food crises. The global economy, which is just starting to recover from the COVID-19 pandemic, has faced new and different challenges from the previous situation.

The IMF also corrected the global economic growth prediction in 2022 by declining more than 50 percent from the previous forecast in 2021. Global economic growth has been revised downward from 6.1 percent in 2022 to 3.2 percent and 2.9 percent in 2023. The economies of developed countries are estimated to grow by 5.2 percent in 2020 and 2021 but have also been revised to experience a decline to 2.5 percent (2022) and 1.4 percent (2023).

Indonesia's economic growth is also experiencing a slight correction. Unlike other countries, its projected not to experience recession with economic growth of around 5.1 percent in 2022. Even the World Bank (2022) projects Indonesia's economic growth

to be 5.3 percent in 2023 and 2024, outpacing China's economic growth.

Although it is projected to grow higher, Indonesia needs to be vigilant. Based on experience, the global economic recession also created a domino effect that has dragged all countries to the brink of recession. Moreover, this recession, accompanied by the world's food and energy crisis, has the potential to cause a domino effect that will spread quickly, so if it is not anticipated as early as possible, it can drag Indonesia into a recession and world crisis.

Indonesia must build a "fortress" to prevent a domino effect due to the global economic recession and crisis that will impact on the domestic economy. Strengthening foreign exchange reserves, energy security, and food security are essential to surviving the storm of global economic recession and crisis.

As part of the global economic community, Indonesia is also part of the solution to bring the global economy out of the economic recession as soon as possible. Indonesia's contribution as the largest palm oil producer can be part of the global food and energy security solution.

This article discusses the palm oil industry's contribution to national foreign exchange security, and food security and energy security at the national and global levels. Then it will also discussed in relation to the three things that can play a role in enlarging capacity of domestic economy so that it becomes part of the "defensive fortress" against the global economic recession and the food-energy crisis.

THE CONTRIBUTION OF FOREIGN EXCHANGE

Important macroeconomic variables needed as "stamina" to support the economy in a recession are the health of the trade balance and the adequacy of foreign exchange. A surplus trade balance results in increased foreign exchange reserves so that, in general, they have a higher resistance to the threat of an economic recession.

During 2020 and 2021 (in 24 continuous months), Indonesia enjoyed an increasing trade balance surplus, from USD 21.7 billion

in 2020 to USD 35.4 billion in 2021 (Table 1). The large and rising surplus in Indonesia's trade balance is a result of palm oil's foreign exchange.

Palm oil's foreign exchange consists of foreign exchange for exports and foreign exchange for import substitution (PASPI Monitor, 2021c, 2022). Export foreign exchange is net income from exports of palm oil and its derivative products. Meanwhile, foreign exchange for import substitution from savings due to the substitution of imported fossil diesel with domestic palm biodiesel. The export of foreign exchange for palm oil and its derivatives affects the trade

balance through the non-oil and gas trade balance. Meanwhile, foreign exchange import substitution affects the trade balance through the oil and gas trade balance.

Export foreign exchange for palm-based products to the trade balance increased from USD 23 billion in 2020 to USD 36.2 billion in 2021. Likewise, foreign exchange from import substitutions due to savings in imported fossil diesel (B30) increased from about USD 3.3 billion to around USD 4.9 billion in that period. Thus, the total foreign exchange for palm oil reached USD 26.2 billion in 2020 and increased to USD 41.2 billion in 2021.

Table 1. Contribution of the Palm Oil Industry to Indonesia's Oil and Gas and Non-Oil and Gas Trade Balances for the 2020–2021 Period (USD Billion)

Keterangan	2020	2021
Export Value of Palm-products	22.96	36.34
Solar Fossil Savings (B-30)	3.15	4.98
Net Export of Oil and Gas		
- Without B-30	-9.10	-18.23
- With B-30	-5.95	-13.25
Net Export of Non-Oil and Gas		
- Without Palm-based products	4.73	12.26
- With Palm-based products	27.69	48.60
Net Trade		
- Without Palm-based products + B-30	-4.37	-5.97
- With Palm-based products + B-30	21.74	35.34

Source: BPS, APROBI (data processed by PASPI)

The contribution of the two sources of palm oil's foreign exchange to Indonesia's trade balance is indicated by the difference in net trade between "Without Palm-based Products and B-30" and "With Palm-based Products and B-30". In the "Without Palm-based Products and B-30" condition, net trade experienced a deficit of USD -3.9 billion in 2020 and USD -5.8 billion in 2021. While in the "With Palm-based Products and B-30" condition, net trade experienced an enormous surplus of about USD 21.7 billion in 2020 and USD 35.4 billion in 2021. This shows the contribution of the palm oil industry to improving the trade balance so that it can significantly increase foreign exchange reserves with a tremendous value.

The surplus net trade provides an opportunity to close the service account, which is constantly in deficit. It will make a

current account surplus, such as in 2021. The surplus is an injection of "new blood" that increases the economic volume in creating job opportunities and increasing income (Palley, 2012; Kang, 2015; Murugesan, 2019). Besides strengthening the economy's resilience in the face of a recession, surplus trade is also needed so that the economy can continue to grow amidst rising global risks.

FOOD SECURITY AND ENERGY

Food security is a precondition for ensuring development stability in all fields. If food security is disturbed, it can quickly lead to economic instability that triggers inflation, social instability, political instability and security instability. This is one of the concerns facing the global economic

recession in 2022/2023, followed by an escalation of the global food crisis (World Bank, 2022).

Palm oil is the largest of vegetable oil-based foodstuff in terms of production, trade, and consumption in the world (Kojima et al.,

2016; Parcell et al., 2018; USDA, 2022; FAO, 2022; PASPI Monitor, 2021^a). This shows that the global palm oil industry has become an important part of global food security (Figure 1).

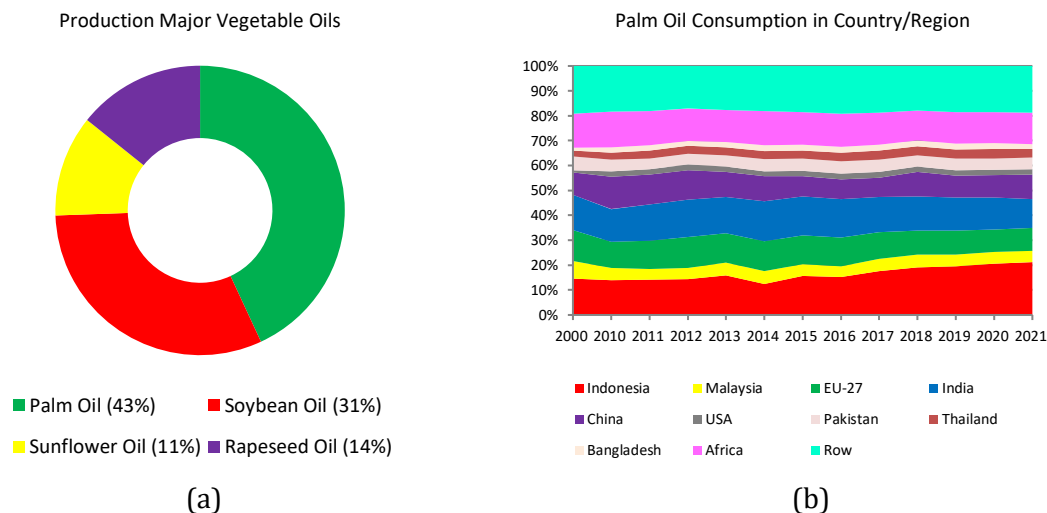


Figure 1. Palm Oil in the World's Major Vegetable Production and Consumption as Part of Global Food Security (Source: USDA)

The various potentials and advantages of the palm oil industry can contribute to the food crisis and global food security. **First**, palm oil has a relatively large volume, even the largest in the world's vegetable oil market. The share of palm oil production in the total production of the world's four main vegetable oils in 2021 will reach 43 percent (Figure 1a). **Second**, the palm oil supply is relatively stable monthly throughout the year. Palm oil (CPO and PKO) is produced from oil palm trees. After the oil palm tree is four years old, the tree will produce oil that can be harvested twice a month throughout the year. This means that oil palm trees can produce oil at a stable volume every month (throughout the year) until the tree is 25 years old. Such stability in palm oil supply provides certainty in the supply of world vegetable oil.

Third, palm oil is a raw material widely used for oleofood products such as cooking oil, margarine, shortening, specialty fat, chocolates, snacks, noodles, biscuits, bread, and other food products. And **fourth**, palm oil is a vegetable oil that is cheaper and more affordable than other vegetable oils, which are relatively more expensive.

This shows that palm oil plays an essential role in providing food or feeding the world (PASPI Monitor, 2021a). Facing the global food crisis, which is expected to last from 2022–2024, the palm oil industry is an important part of the solution through its presence in providing food for the global community.

The palm oil industry can also be part of the solution to the global energy crisis. The increase in global fossil fuel prices, especially since the beginning of 2021, has pushed up the cost of production and distribution of goods in the global market (cost-push inflation), which has exacerbated the impact of the economic recession. The solution to these problems is the need for alternative energy that can reduce dependence on fossil fuels, which can be used at the local, national and global levels.

The palm oil industry contributes provides renewable energy for the global community (Figure 2). The first Generation of Renewable Energy is the processing palm oil to produce biodiesel, FAME, green diesel, green gasoline, and green avtur. The second Generation of Renewable Energy is the processing of palm biomass to produce energy such as bioethanol, biopellet, charcoal

briquettes, biocoal, biogas, and bioelectricity. Meanwhile, the third Generation of Renewable Energy is the processing of solid and liquid waste to produce energy, such as biogas (from methane capture of palm oil mill

effluent/POME), biodiesel algae (utilization of CPO mill for algae ponds) and utilization of Spent Bleaching Earth (SBE) from the refinery to the energy.

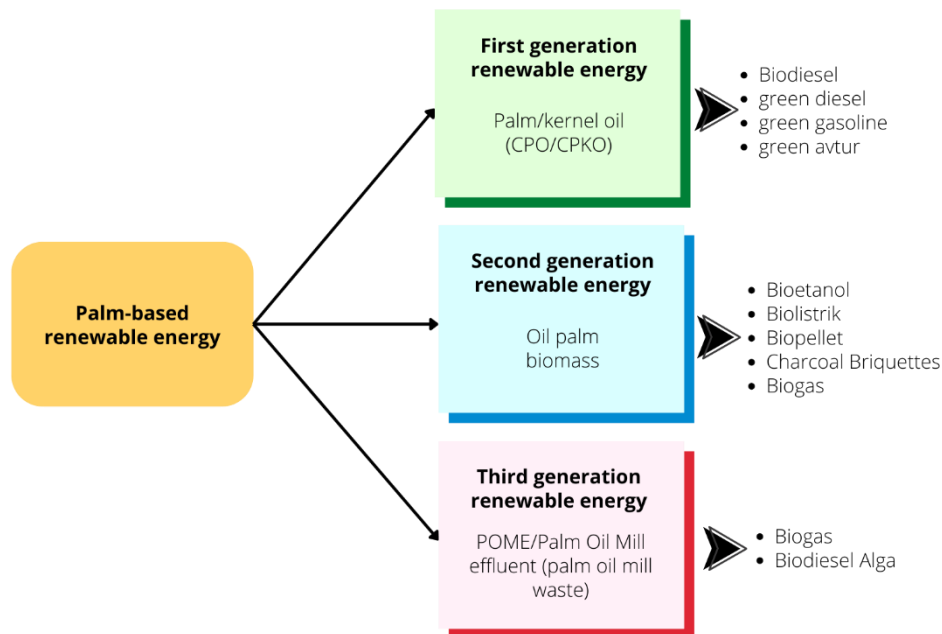


Figure 2. Three Generations of Renewable Energy for Global Energy Security

Palm-based renewable energy has been widely used Internationally in various countries, such as biodiesel/FAME (Faty Acid Methyl Ester) and bio-coal. Another first generation of renewable energy, namely green fuel (green diesel, green gasoline, and green avtur) is being developed in Indonesia. Meanwhile, the second and third generations of renewable energy are already being used at the local level.

In global biodiesel industry, palm oil has an important role in the global biodiesel industry (PASPI Monitor, 2021^b). The volume of palm oil used in the global biodiesel industry will increase from 3.9 million tons in 2011 to 15.2 million tons in 2021.

As the largest palm oil producer in the world, Indonesia also processes palm oil into biodiesel (FAME). In period 2011–2021, Indonesia's biodiesel production increased from 243 thousand kiloliters to 8.9 million kiloliters. With the consistent implementation of mandatory biodiesel, Indonesia has evolutionarily reduced its energy dependence on imported fossil diesel energy (PASPI Monitor, 2021^d) so that when the global diesel price increases, it can be

replaced by palm biodiesel. This further strengthens national energy security.

Although the development of palm biodiesel in Indonesia is mainly for domestic consumption, Indonesia is still exporting to meet the global biodiesel demand. With Indonesia's biodiesel plant capacity of 17 million kiloliters by 2021, the palm oil industry is an important part of global energy security, especially in renewable energy.

CONCLUSION

In at least 24 months (2020-2021), the palm oil industry has shown its contribution to Indonesia's trade balance restoration. Through the Palm Oil Foreign Exchange that it generates from export foreign exchange of palm oil and its derivative products as well as foreign exchange for import substitutions (foreign exchange savings of solar fossil due to B30), the palm oil industry generates a large and increasing trade balance surplus, thereby increasing the national foreign exchange reserves. This has become the stamina of the national economy in facing the

risk of a global economic recession and its domino effect.

The palm oil industry is also part of the solution to the global food and energy crisis through its contribution to global food and energy security. The palm oil industry is the largest source of oleofood, contributing to global food security. The availability and affordability of palm oil as a food ingredient both at the national and global levels is part of the solution to the food crisis that accompanies the global economic recession. Likewise, the availability and affordability of renewable energy (palm-based first, second, and third generation) have the potential as a solution to the fossil fuel energy crisis.

Thus, the palm oil industry is part of the “defensive fortress” against the global recession through its contribution to foreign exchange, food security, and energy security at the local, national, and global levels. With such an important role, the government needs to continue to ensure that the palm oil industry ecosystem can enable them to provide the best performance both for Indonesia and the world.

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