

Journal Analysis of Palm Oil Strategic Issues

English Edition
Volume IV, No. 12
November 14th, 2023

OIL PALM PLANTATIONS: ECONOMIC RURALIZATION AND RURAL-URBAN ECONOMIC INTEGRATION

By
PASPI Monitor

RESUME

Oil palm plantations are generally developed in degraded areas in regions that are underdeveloped, isolated, remote, poor in investment, poor in human resources, and poor in infrastructure. Through the ruralization of investment and human resources resulting from the development of oil palm plantations, degraded areas can be transformed into developing areas. The ruralization of investment and human resources through oil palm plantations creates new centers of economic growth in rural areas that were previously categorized as degraded areas. The ruralization of investment and human resources through oil palm plantations also becomes a locomotive and integrates the economy across rural sectors and with urban economic sectors, thereby creating an inclusive economy as well as reducing the economic polarization between urban and rural economy.

INTRODUCTION

The regional development approach has generally adopted a growth pole strategy so far. This strategy makes cities the center of growth, while rural areas are positioned as peripheral supporters of the cities.

This development strategy has led to urbanization which is characterized by rapid exploitation of capital (capital drain) and skilled labor (brain drain) from rural areas to urban areas. Therefore, rural areas experience under investment, while urban areas undergo over investment. As a result, the regional economy generally displays dualistic economic face. On one side, there is the growing advanced urban economy driven by the industrial and trade sectors, and on the other side, there is the rural economy, which is generally underdeveloped, isolated, degraded and poor. The dualistic economy will continue to polarize unless there are systematic and massive efforts to reverse the flow (ruralization), attracting capital and labor back to rural areas, especially in underdeveloped and isolated areas.

Various policies and programs to spur rural development, from the Presidential Instructions on Villages to Village Funds, seem to have not been able to narrow down this dualistic economic polarization. In addition to their partial approach and limited volume, these policies and programs only result in "small bites" (bit by bit) with minimal impact on the rural economy.

The development of oil palm plantations in Indonesia is oriented towards rural areas (ruralization). Oil palm plantations thrive in rural areas rather than urban areas. Accumulatively, the scale is relatively large, so it can have a big push on the rural economy. Apart from turning the wheels

of the economy in rural areas, oil palm plantations also have the potential to attract urban economic activities.

This article will discuss how the development of oil palm plantations in Indonesia ruralizes capital and labor to rural areas to stimulate the economy of degraded areas in rural areas, transforming them into new centers of growth. Additionally, there will also be a discussion regarding the development of oil palm plantations that have the capability to attract and integrate the urban economy.

OIL PALM PLANTATIONS AS ECONOMIC RURALIZATION

Oil palm plantations are built in areas that can be categorized as degraded areas namely areas that are socially, economically and ecologically degraded, and are usually located in isolated, underdeveloped, poor, peripheral and remote areas (PASPI, 2022; [PASPI, 2023](#)). Referring to Say's Law, which posits that supply creates its own demand, the economy of degraded areas can only possibly be built if the business (such as oil palm plantations) thrives to transform the existing resources, thereby generating the "economic cake".

The development of oil palm plantations, involving a combination of government, private, and community investments focused on specific areas, has adopted the big-push strategy theory. This theory was developed by economist Paul Rosenstein-Rodan in 1943, who stated that rural development would be significantly successful if it was carried out with a big push, namely with large and mass investment for the size of the regional economy.

Starting with a pilot project with an assistance from the World Bank which became known as the Nucleus Estate Smallholder/NES (*Perkebunan Inti Rakyat*/PIR) program. Since 1980, the implementation of the NES pattern in the development of oil palm plantations has been driven by state-owned plantation companies. This NES pattern has continued to evolve, giving rise to various variations such as Local NES, Special NES, Trans NES, and KPPA NES (PASPI, 2014; Sipayung, 2012, 2018; PASPI, 2022; [PASPI, 2023](#)). The success of various variations of the NES pattern becomes the starting point for the ruralization of investment and human resources (HR) into oil palm plantations in rural areas.

The development of oil palm plantations experienced rapid growth after the reform order (since 2000). Even in difficult times and limit funding support from the government, private company initiatives and local communities (farmers) are the drivers of the development of oil palm plantations in rural areas. This is reflected in the growth of oil palm plantation areas which increased from only around 4 million hectares in 2000 to 16.3 million hectares in 2020.

The growth of oil palm plantations in rural areas is a form of ruralization of investment and human resources. To develop the 16.3 million hectares of oil palm plantations, investment of at least IDR 1,000 trillion has been attracted (for oil palm plantations alone). This investment does not include funding for the construction of a CPO-Mill, roads/bridges, CPO ports, housing and offices, educational and health facilities, as well as other public/social facilities.

The development of oil palm plantations in rural areas, where the technology is relatively labor-intensive, encourages the ruralization of human resources into oil palm plantations in rural areas. This is confirmed by the number of human resources of around 16.5 million people, who are absorbed and become (direct and indirect) workers in oil palm plantations ([PASPI, 2023](#)).

The growth of oil palm plantations in rural areas has also attracted the development of economic activities that provide agro inputs, services and the needs of people who work in oil palm plantations (Rifin, 2011; [PASPI, 2023](#)). Various agro-input trading businesses (fertilizers, pesticides, plantation machines), FFB/CPO transportation services, banking services, basic commodity and household equipment trading activities, culinary services (food stalls, restaurants), and others are developing rapidly in rural areas along with the development of oil palm plantations in the areas. The development of economic activity is of course also part of the ruralization of investment and human resources driven by oil palm plantations.

The development of oil palm plantations and economic activities related to these oil palm plantations has fostered the emergence of new economic growth centers in rural areas. PASPI studies (2014, 2022, 2023) revealed these new economic growth centers in rural oil palm plantation areas (Table 1). The ruralization of investment and human resources through oil palm plantations in rural areas has not only transformed the degraded areas into developing ones, but has also acted as a driver for the development of new economic growth centers in rural areas.

Table 1. New Economic Growth Centers in The Regions Based on Oil Palm Plantations

Province	New Economic Growth Center
Aceh	Nagan Raya, Aceh Singkil, Aceh Timur, Subulussalam, Southwest Aceh, North Aceh and others
North Sumatra	Stabat, Belarang, Sei Rampah, Limapuluh, Perdagangan, Rantau Prapat, Aek Kanopan, Aek Nabara, Kota Pinang, Sosa, Sibuhuan, Panyabungan and others
West Sumatra	Pasaman Barat, Dharmas Raya, Agam, Pesisir Selatan, Sijunjung and others
South Sumatra	Sungai Lilin, Tugumulyo, Pematang Panggang, Bayung Lencir, Musi Rawas, Peninjauan, Muara Enim, Lahat.
Riau	Pasir Pengaraian, Bangkinang, Siak Sri Indrapura, Rengat, Tembilahan, Bengkalis, Bagan Siapi-API, Teluk Kuantan, Dumai, Pekanbaru and others
Jambi	Sarolangun, Sungai Bahar, Sengeti, Kuala Tungkal and others
Bengkulu	South Bengkulu, Mukomuko, Seluma, North Bengkulu, South Bengkulu, Central Bengkulu and others
West Kalimantan	Sanggau, Bengkayang, Ketapang, Sintang, Kubu Ra and others
Central Kalimantan	Sampit, Kuala Pembuang, Pangkalan Bun, Kasongan and others
East Kalimantan	Sangatta, Tenggarong, Tana Pase, Tanjung Redeb, Nunukan, Sendawar and others
South Kalimantan	Batulicin, Kotabaru, Pelaihari and others
Sulawesi	Mamuju, Donggala, Bungku, Luwu, Pasangkayu and others
Papua & West Papua	Keerom, Sorong, South Sorong, Manokwari, Teluk Bintuni, Fak-Fak, Merauke and others

Source: PASPI (2014)

The increased economic activities in rural areas, both in the oil palm plantation sector and sectors related to oil palm plantations, contribute to regional economic growth. PASPI studies (2014, 2022, 2023) revealed that the economy of oil palm center areas are relatively larger with faster growth rates compared to non-oil palm center areas.

Kasryno's study (2015) which also revealed the same phenomenon, namely several oil palm center provinces in Indonesia such as North Sumatra, Riau, Jambi, South Sumatra, and Kalimantan (West, Central and East) have relatively higher GRDP growth rates compared to provinces with relatively low oil palm plantation areas such as Aceh, West Sumatra, Bengkulu, Lampung, South Kalimantan, and Sulawesi.

In addition to faster economic growth, poverty reduction in oil palm center provinces, such as Sumatra and Kalimantan, is also faster than in non-palm oil production center provinces. Various studies (Susila, 2004; Susila and Munadi, 2008; World Growth, 2011; PASPI, 2014, 2023; Kasryno, 2015; Edwards, 2019) stated that poverty alleviation in rural oil palm centers is relatively faster compared to non-oil palm center areas.

OIL PALM PLANTATIONS INTEGRATING THE RURAL-URBAN ECONOMY

The ruralization of investment and human resources through the development of oil palm plantations in rural areas not only creates new economic growth centers in rural areas. These oil palm-based economic growth centers also integrate oil palm plantations with the rural economic sector and the urban economic sector. In addition through the input-output mechanism (direct and indirect effects), the development of oil palm plantations also generates a multiplier effect that impacts the income and consumption of the people, known as the induced consumption effect (PASPI, 2014; 2023).

People who work in oil palm plantations (oil palm plantation communities) are not food producers and also not the producers of industrial consumer goods. On the other hand, oil palm plantation communities have needs for food and industrial products. With a fairly large number of people and relatively high and relatively stable purchasing power, the oil palm plantation community demonstrated a large market potential for both food producers around the oil palm plantations and producers of industrial products from urban areas.

Based on [BPS \(Statistics Indonesia\) data \(2022\)](#), it can be revealed the magnitude of the transaction values between oil palm plantation communities and agricultural communities (include food crop farming, livestock, and fisheries) around oil palm plantations as well as urban communities as producers of industrial goods (Figure 1).

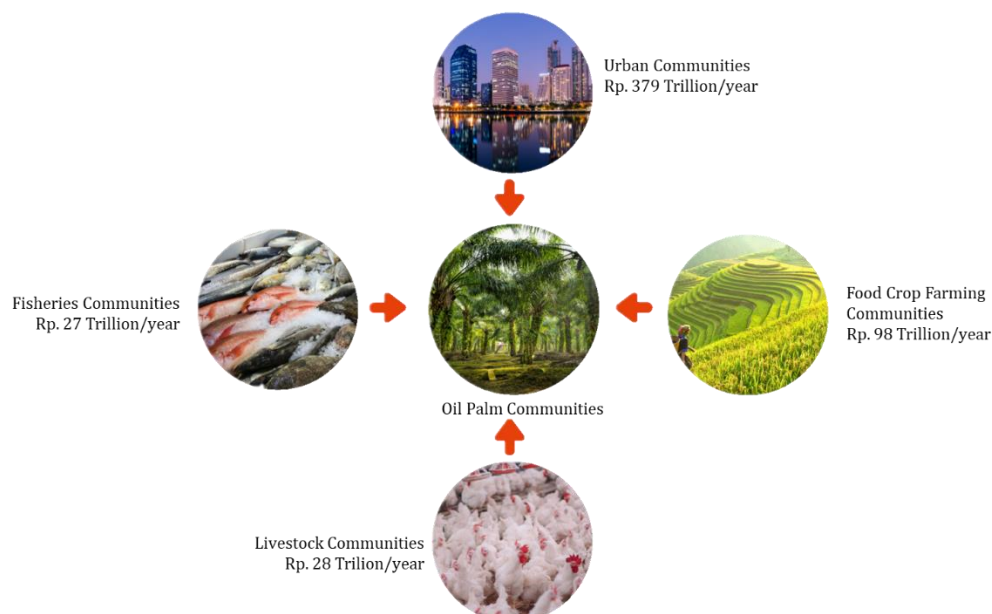


Figure 1. Transaction Values of Oil Palm Plantation Communities with Agricultural Communities and Urban Communities (Source: [BPS, 2022](#); data processed by PASPI)

The total transaction value created between oil palm plantation communities and rural communities reach around IDR 153 trillion per year. This includes the transaction value between the oil palm plantation community and food crop farming community, amounting to IDR 98 trillion per year, with livestock farming community at IDR 28 trillion per year, and with the fishing community at IDR 27 trillion per year.

The economic transactions between oil palm plantation community and the farming/livestock farming/fishing communities reveal a symbiotic, mutualistic relationship between oil palm plantation community and rural farming/livestock farming/fishing communities through food markets. This mutual food symbiosis is one of the explanatory factors why oil palm plantation communities never lack food even though there is a food crisis in other areas. Likewise, the community of farmers/livestock farmers/fishermen in the vicinity of the oil palm centers do not encounter difficulties in marketing their agricultural products.

The economic transactions between oil palm plantation community also occur with urban community. Oil palm plantation community also needs industrial goods produced in urban areas. On the other hand, urban industrial community also needs markets for their industrial products. It should be noted that the urban community here is not only the urban areas in oil palm center provinces, but also includes industrial communities in non-oil palm center provinces such as provinces on the islands of Java and Bali.

The transaction value between oil palm plantation community and urban community reaches approximately IDR 379 trillion per year. The transaction value with urban community is more than twice that of the transaction value with the farming community. This indicates that the oil palm plantation community constitutes a very large market for urban community (producers of industrial goods). Therefore, developing oil palm plantations also means developing a market for the urban economy.

The economic mutualistic symbiosis between the oil palm plantation community and food crop farming/livestock/fishing communities as well as urban community (producers of industrial goods) shows that the oil palm plantation economy integrates the economy across rural economic sectors and with urban economic sectors. The oil palm plantation economy can be called a locomotive that attracts economic growth in the agricultural sectors in rural areas and at the same time is also a locomotive for the economic sectors in urban areas. The growth in income of oil palm plantation community will attract rural economic growth and attract urban economic growth.

Thus, it becomes increasingly clear that the ruralization of investment and human resources through oil palm plantations not only stimulates the economy of the degraded areas in rural regions, building new economic growth centers in rural areas, but also integrates the economy with the economic sectors in rural areas and the economic sectors in urban areas. In addition to creating an inclusive economy, such economic integration in the long term will reduce the economic polarization between urban and rural economies, correcting the dualistic economy into a rural-urban economy.

CONCLUSION

Oil palm plantations are established in areas that can be categorized as degraded areas, namely areas that are socially, economically and ecologically degraded and are usually located in isolated, underdeveloped, poor, peripheral, and remote areas. The ruralization of investment and human resources is created through the development of oil palm plantations in rural areas.

With the development of oil palm plantations due to the ruralization of investment and human resources, a multiplier effect is generated, capable of turning the wheels of the rural economy through the development of other economic sectors related to oil palm plantations. This can create new economic growth centers in rural areas.

The ruralization of investment and human resources through oil palm plantations is also capable of creating an economic mutualistic symbiosis between oil palm plantation community and food crop farming/livestock farming/fishing communities as well as urban community (producers of industrial goods). This shows that oil palm plantations act as a locomotive, integrating the economy across rural sectors and with the urban economic sectors, thereby creating an inclusive economy, reducing the economic polarization between urban and rural economies, correcting the dualistic economy into a rural-urban economy.

ACKNOWLEDGEMENT

The authors would like to express gratitude for the financial support from the Indonesia Oil Palm Plantation Fund Management Agency (BPDPKS).

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