

The Implications of Indonesia's Shift in Palm Oil Exports from the European Union to China: a World-Systems Theory Analysis

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Abstract. For years Indonesia's domestic economy has been relying on a strongly performing palm oil industry. Indonesia's booming palm oil exports have, however, has been hampered by recent developments in the European Union, where policy-making, consumer preferences and other factors have led to the risk of a ban of Indonesian palm oil. Indonesia is projected to shift its exports to a new market – China. In this research, an analysis placed in the critical environment of the British School of International Political Economy (IPE) and the World-Systems Theory (WST), wishes to untangle politico-economic implications concerned with such shift. The research concludes that a critical analysis of an Indonesian shift of palm oil exports from the EU to China, will lead to the shifted Indonesian exposure to dependency, now, however, with potentially more threatening effects. Furthermore, the trade war between the United States and China acts as a catalyst to previously stated threatening effects – trapping Indonesia. The research recommends Indonesia to safeguard its own rights to avoid falling into a trap of devastating dependency

Keywords: World System Theory, IPE, Trade War, Palm Oil

1. INTRODUCTION

1.1 BACKGROUND

One of Indonesia's major export is palm oil, which accounts for around 10% of Indonesia's overall exports in terms of value, making it the country's second-largest earner behind coal-based products (Speechly & Ozinga, 2019). Indonesia is a major global supplier of palm oil, producing 43 million tons in 2018, or accounting for 62% of the global production. While most palm oil is used for human consumption, it also has the potential to help replace fossil fuels as a source of energy, due to its efficiency in terms of production per hectare, compared to other vegetable oils. Palm Oil can be used sustainably if in line with the principles of sustainability. (Gakpi, 2020)

Within international trade relations, various policies such as trade agreements, legislation in consuming countries, agricultural policies, development cooperation, and private sector initiatives, including voluntary certification, can significantly influence how commodities are produced. Such instruments may be invoked as measures to address environmental and human rights concerns, as well as product safety and public health (Speechly & Ozinga, 2019). Palm oil is one of the commodities singled out for special attention, ostensibly due to its negative effects on tropical forests and populations dependent on such. Therefore, coordinated actions to address these consequences have been acknowledged as necessary.

Despite their strong historical and current ties, the EU-Indonesia economic relationship is currently being strained due to a debate over bilateral palm oil trading. The European Union has lately made a number of significant new regulations concerning palm oil in the EU, which have enraged Indonesia. Due to its dependence on palm oil - about 17 million farmers depending their livelihoods on its production - Indonesia took the issue very seriously. Indonesia has taken the dispute to the WTO, claiming that Europe's decision violates UN's Sustainable Development Goals in terms of raising the global standard of living.

The dispute started in 2017, when the EU designated palm oil as a high-risk commodity under the Renewable Energy Directive (RED) II. (Pangemanan, Europe and Indonesia at Odds: The Ongoing Debate over the European Union's Palm Oil Legislation, 2021) The EU has lately made numerous restrictive decisions on the future of

palm oil in the European Union, which have greatly angered Indonesia, after the release of RED I in 2007 and the implementation of a certification system on palm oil sustainability. One of these is the choice to start restricting imports and using CPO as a feedstock for biofuels as of 2023, with the goal of eventually banning its usage completely by 2030.

Due to its economic and environmental implications, the conflict has now grown to be quite contentious. With regard to the EU's claims regarding the severe effects of its palm oil sector, Indonesia questions the linking of palm oil production and loss of forests. Its principal defense is that Indonesia's deforestation rate has drastically been reduced over the previous four years as a result of its commitment to "Zero Deforestation." Furthermore, Indonesia claims that its CPO has always complied with Europe's strict requirements and processes for sustainable commodities, in addition to being exponentially more productive than other vegetable oils in terms of land usage. (Pangemanan, Europe and Indonesia at Odds: The Ongoing Debate over the European Union's Palm Oil Legislation, 2021)

EU's ban on Indonesian CPO will have a domino effect and it's a great example to show how the hierarchy in the world system theory does not work out as smoothly as the theory says. Indonesia have criticized and protested the EU's decision to remove palm oil from the list of renewable energy sources in the Renewable Energy Directive II (RED) (Robertua, 2019). The EU, on the other hand, contended that the increasing use of palm oil is directly linked to deforestation and forest degradation. EU environmental diplomacy has entered a new phase following Indonesia's response to the EU-Indonesia trade war, Indonesia has threatened to boycott EU imports and has filed a complaint with the World Trade Organization's Dispute Settlement Body. The subject of sustainability is at the center of EU environmental diplomacy (Robertua, 2019). The possibility of a trade war between EU and Indonesia has heightened the issue of international trade justice and fairness. The benefits of the EU's RED II, on the other hand, were not emphasized by the Indonesian government.

This all ties back to the reason behind the ban of CPO export from Indonesia in the EU. Palm oil is deemed unfriendly to the environment and if CPO

is still being used abundantly, the European Union will surely not meet its sustainability goals. The European Union has their own regional policy as a core state and organization, with that being said, shows how it can affect the semi-periphery states such as Indonesia to adapt to the ongoing situation.

Therefore, Indonesia sees themselves in a position as a semi-periphery state that can still develop and provide for a core country, they can freely choose another core countries other than the European member states, such as China. With all the problems about climate change, deforestation, and how CPO is not environmentally friendly, China seems to be the core country who are willing to not care as much as the EU as long as they get what they want and need. It will be interesting to see the outcome through the lens of the world system theory of how Indonesia will do based on British IPE and WST.

1.2 PROBLEM IDENTIFICATION

In December 2018, The EU updated the Renewable Energy Directive (RED II), which prohibited the use of palm oil. It adopted a renewable energy directive in 2009 and established goals of renewable energy sources for 20 percent of its energy and 10 percent of transportation. Early in 2018, the EU drafted a new directive that forbids importation of biofuel produced on land that was previously used for food or forest products. As around one-third of the palm oil imported into the EU is used to produce biodiesel and the remainder is mostly used by the food and chemical sectors, this statement is accurate. The prohibition was adopted by the EU Parliament in January 2018 and was scheduled to go into effect in 2021. This directive is based on the supposed detrimental effects of palm oil on society and the environment. (Hasri Darmawan, 2019)

With the aim of facilitating and opening up additional market access, increasing EU-Indonesian trade, and boosting direct investment, the EU is negotiating a Comprehensive Economic Partnership Agreement (CEPA) with Indonesia. (EEAS, 2020). It is being negotiated because Indonesia's palm oil exports to the EU are so important that the expected effects of RED II could be a roadblock to CEPA completion (Speechly & Ozinga, 2019). In the CEPA chapter on Trade and Sustainable Development (TSD), Indonesia has suggested a distinct article pertaining to vegetable oils, which would address concerns of human rights, the environment and sustainable trade. This

seeks to guarantee that palm oil is handled fairly in comparison to other EU-produced products.

Since last year, the EU and Indonesia are moving into the 10th negotiating cycle for the Comprehensive Economic Partnership Agreement (CEPA) between the two. The problems around palm oil have dominated the negotiations thus far. In responding to the current climate problem, the EU put harsher limitations on palm oil in biofuels earlier this year. The EU has imposed retaliatory taxes on subsidized imports of biodiesel from Indonesia, ranging from 8% to 18%. Indonesia has responded with a warning to retaliate by imposing counter tariffs on EU dairy exports ranging from 20% to 25%.

With the EU market closing, Indonesia has turned to China as its potential market, capitalizing on the opportunity created by the trade war between China and the United States. According to Montty Girianna, (Nicholas Jong, 2019) the deputy for energy in the office of the coordinating minister for the economy, Indonesia is continually striving to grow the crude palm oil (CPO) market, especially in China, which is the country's third-largest market. Furthermore, according to Montty, Indonesia is "the largest CPO producer" (Nicholas Jong, 2019) and thus have the ability to set and monopolize the prices in the market, hence, "being the largest supplier [of CPO] has its advantages".

Indonesia is focusing its shift on exporting CPO from the EU, and by doing so, are exploring the possibility of exporting more to China. China is going through a trade war with the United States, and they see Indonesia's ban of CPO to the EU an opportunity to not rely on United States soybeans amid the high tariffs by the United States. The International Monetary Fund (IMF) has identified trade tensions between the United States and China as a major source of global economic concern. International commerce has weakened, corporate confidence has dropped, and investment in developing nations has slowed, all of which has resulted in a lowered forecast for global economic growth (Maruti, 2019). Indonesia, like many other countries, is caught in the crossfire.

The policies of the EU and the ongoing dispute between the U.S and China show how the world system theory and its hierarchy of states known as core, semi-periphery, and periphery states can be imbalanced and imperfect.

1.3. RESEARCH QUESTIONS

The expected shift of Indonesia's export of CPO to China can be seen by using the British IPE perspective in relations to the WST. The purpose of the IPE (International Political Economy) is to make trade more efficient. With the use of the WST, we can see that Indonesia being a semi-periphery state does not necessarily rely on the EU. They can shift their export to another core state in the form of China. That being said, hereby are the follow questions that this research is trying to address: (RQ 1) Does the U.S and China Trade war escalate Indonesia being dependent on China for their core CPO market? (RQ 2) Will the outcome be worse in accordance with WTS when Indonesia chooses China as their core country for exporting CPO?

2. LITERATURE REVIEW

2.1. BRITISH SCHOOL OF INTERNATIONAL POLITICAL ECONOMY

Today's international relations academic ecosystem is deeply ingrained in the field of international political economy (IPE). However, when we look back at the history of IPE, we immediately see that IR and IPE have a recent past. Additionally, IPE underwent constant evolutions as a result of exposure to academic trends and other variables, leading to a variety of viewpoints and methods. This is covered in greater detail in this chapter.

The British school of IPE began with the crucial role of Susan Strange in developing the British version of IPE. In 1970, Susan Strange's landmark paper, provocatively titled "International Economics and International Relations: A Case of Mutual Neglect," was published. (Cohen Benjamin, 2007).

For Strange, discovering new means to address global injustices was the entire aim of intellectual investigation. Theory could only be evaluated based on how useful it is. She was always thinking about distributional issues, whether she was discussing the quest of riches or the desire of power. She consistently focused on the crucial issue, Cui bono? Whose benefit? (Cohen Benjamin, 2007, p. 11) She also did not hesitate to express an opinion on issues of equality or morality. Scholarship and ideals were inextricably linked in her mind. IPE should be "about fairness, together with efficiency: about order and national identity, along with cohesiveness, even self-respect" (Cohen Benjamin, 2007).

What caused the movement to occur? A new academic discipline does not emerge in a solitude. Intellectual advancements frequently have a historical context, especially in the social sciences. The astonishing recovery of the economy of Europe and Japan in the postwar era was most noticeable. By the 1960s, it appeared that the balance of economic strength among industrial nations was changing dramatically. The United States had colossally dominated the global economy by the middle of the 20th century. But with a declining growth rate and a deficient balance of payments, America suddenly appeared to be heading for a collapse (Cohen Benjamin, 2007).

Many IPE academics believe that Robert Gilpin's writings from the mid-1970s and the years that followed are what led to the development of IPE. Before beginning his academic career, Robert (Bob) Gilpin served as an officer in the United States military. Gilpin is known for his new contribution towards younger academic students for his role on hegemonic stability. Which was the base for the Hegemonic Stability Theory (HST) that is still used today (Cohen, 2012). He defined IPE as "the reciprocal and dynamic interplay in international relations between the pursuit of riches and the quest of power" (Gilpin, 1975) in *US Power and the Multinational Corporation* from 1975. Politics and economics are intertwined, and this relationship still serves as the fundamental element of IPE.

Liberalism, Marxism, and realism, all derived from conventional IR theory, each offered students of IPE their own unique "picture of the future," (Cohen Benjamin, 2007, p. 6) according to Gilpin. Marxists and liberals both believed that economics would eventually control politics, though they obviously disagreed on whether it was a positive or a negative. Realists, on the other hand, continued to believe in the ability of political interactions to influence economic systems (Cohen Benjamin, 2007).

British International Political Economy fits best with Neo-Marxism. According the Neo-Marxism from Cohen, "...there is a conflict between social equality and the liberty of some people." However, this shouldn't stop efforts to achieve social equality because "a humane concern for liberty must first of all direct itself to the condition of those who enjoy hardly any of it." Having fair trade rather than quest for power and more profit is what British IPE is all

about. Which has similar characteristics to Neo-Marxism (O'Hagan, 2015).

2.2. WORLD-SYSTEM THEORY

The world system paradigm came into being as social scientists debated the implications of the Latin American dependence theory in the African context. In conversation with one another, Immanuel Wallerstein, Samir Amin, and Andre Gunder Frank, created somewhat distinct iterations of the world-system concept. The main thesis of the paradigm was that the global system comprised of a “layered structure of inequality” due to institutionalized exploitation. Thus, it is the global system that should be studied, rather than individual states. Additionally, global power relations have shaped both growth and underdevelopment (Christopher & Grell-Brisk, 2019).

In a society dominated by capitalism, the world tends to favor relationships that benefits one in favor of more. In Immanuel Wallerstein (1974), it is explained about the interdependence of one country and how we can assume that countries act based on their own needs. The presence of exchange of goods, and labor defines the world economy.

“We must start with how one demonstrates the existence of a single division of labor. We can regard a division of labor as a grid which is substantially interdependent. Economic actors operate on some assumption (obviously seldom clear to any individual actor) that the totality of their essential needs—of sustenance, protection, and pleasure—will be met over a reasonable time-span, by a combination of their own productive activities and exchange in some form”

(Wallerstein, *The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis*, 1974).

In the book *World System Analysis* by Immanuel Wallerstein, he discusses the basic idea of trade, with the aspect of core, and semi periphery states. Wallerstein elaborated that the actors of international trade were not equals; some countries (called the “core”) were stronger than others (“periphery”), and therefore the terms of trade resulted in surplus-value flowing from the weaker countries to the stronger ones. This is later labelled

“unequal exchange” (Wallerstein, *World System Analysis*, 2004).

David Ricardo (Siddiqui, 2018) states that when protection is removed, it is more likely that resources shift from high-cost products and toward low-cost products, resulting in increased production. Ricardo’s comparative advantage trade theory argued for free trade. That goes back to Immanuel Wallerstein world analysis theory that David Ricardo utilized and stated that if everyone pursues their “comparative advantage,” everyone will profit to the greatest extent possible. There were also disagreements among proponents of the core-periphery concept. How did it turn out? Who gained the most from the uneven exchange? What would be the most effective countermeasures? And to what extent did these policies necessitate political intervention in addition to economic regulation?

Global inequalities were the main emphasis of the world-system analysts, but their terminology varied slightly (Christopher & Grell-Brisk, 2019). Frank and Amin discussed the core and the perimeter. Rather than using the term “center” with the connotations of a single-peak hierarchy, Wallerstein used the term “core” as a “multicentric zone containing a set of states between the core and the periphery” in the three-tiered system. I tend to agree with Wallerstein’s version of a three-tiered system. The three-tiered system really show the differences between the strongest, developing, and the dependent countries.

That being said, periphery is key to how one country would treat another in regards to their position and relationship with one another. According to (Wallerstein, 2004), there is a special link between economic producers and political power holders; they collaborate to create more surplus and benefits for the system. Wallerstein (Wallerstein, *The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis*, 1974) divided a country into three categories: core, semi- periphery, and periphery.

The core, semi-peripheral and peripheral countries are differentiated by level of resources. Core countries have the most capital, with a tendency of high labor wages and high-tech production processes, as well as lesser exploitation and coercion of labor. These countries control much of

global capital and technology, as well as trade and economic agreements. Peripheral countries are less industrialized and developed, and reliant on capital from core countries. Most of these countries are agrarian, have low literacy rates, and lack reliable Internet connectivity. Conversely, core countries depend on peripheral countries for labor and supplies. That being said, semi-peripheral countries act as buffers between the core and the periphery. Core countries exploit both semi-peripheral and peripheral countries, just as semi-peripheral countries exploit peripheral countries (Boundless, 2021).

Nevertheless, we can say that every country has its own role in the world system. Unfortunately, some countries based on their status in the world system will get more exposed more than others. Countries rely on one another to survive, but when one country does not get along with one another or share the same views, it can affect one's relations and could lead into a trade dispute which will eventually turn into a trade war.

2.3. TRADE WAR

A trade war occurs when a country imposes import taxes or other limitations on another country's imports. This often occurs when a country believes that its competitor is engaging in unfair trade practices. Such conflicts are often viewed as a byproduct of protectionism, which is defined as state actions and policies that impede international trade. Generally, protectionist measures are taken to protect native industries and employment against foreign competition. (Chen, 2022) It is also intended to reduce trade deficits, namely when a country imports more than exports. In a global economy, trade wars can be strongly detrimental to consumers and businesses, and the impacts can spread to various elements of both economies.

A trade war in a sector might spread to other sectors, similarly, a trade war between two countries can pull other countries to participate. The EU ban of Indonesian CPO surely has an impact towards the U.S and China trade war that sees Indonesia as being one of the countries who are not participating in the trade war, but feeling the effect of it.

3. METHODOLOGY

Referring to the theoretical framework of this research and earlier elaborations on the critical discourse of both, the British School of IPE as well as the World-Systems Theory, it becomes clear that

the research method must facilitate a post-positivist analysis. In contrast to the American School of IPE, which focuses on positivist and thus empiricist assessment of the international politico-economic landscape, this research wishes to establish a normative approach. As a reminder: the underpinning of, for example, trade or trade war, would be assessed in efficiency and effectiveness, if we were to take the approach of the American IPE. This is, however, not the objective of this research, which rather wishes to expose the various negative impacts, for instance, with regards to the environment or labor forces in the Global South.

As a logical consequence, the method being used in this research is a qualitative method – and that for various reasons: a qualitative research method draws its power from a post-positivist approach, avoiding abstractions of empirical assessments. As for such, it relies on data that is not numerical. Within numerous scientific fields, qualitative methods are used as they can be very useful when conceptualizing research as the foundation of any uncertainty about any significant phenomena or questions (Sofaer, 1998).

Amongst qualitative research methods, common types are, amongst others, ethnographic approaches, approaches with a focus on narrative, or a phenomenological approach – however, as this research is a case study analysis, the qualitative research method here uses a case study approach (Tomaszewski, Zarestky, & Gonzalez, 2020). In *Case Study Research and Applications*, Robert K. Yin (2017) describes the case study approach as the right choice, when analyzing “a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between the phenomenon and context are not clearly evident” (p. 18). Such is also the case in this research. In the following, the data collection and data analysis following a case study approach is elaborated in-depth.

Data collection in a case study must utilize “multiple types of evidence, and pay careful attention to the context in which all aspects of the study were embedded, in other words, triangulate data” (Tomaszewski, Zarestky, & Gonzalez, 2020, p. 4). Amongst such data, this case study approach refers to secondary data, taking into account research from previous studies and journals that have already been published to evaluate our research proposition. In a qualitative method, data being collected differs from quantitative method,

such as numbers. In qualitative method, data being collected can be data such as case study, previous studies, and interviews. This research takes data that has already been published to back its claims from online web pages, books and journals.

Secondary data from journals, articles, web pages, and books has been compiled for the aim of this research in order to have a better knowledge of the relationship between CPO, World-Systems Theory, and Trade. Nonetheless, concerning analysis, a few more elaborations are necessary.

Secondary data analysis refers to the examination of data that has already been acquired by others (Donellean & Richard, 2013). Such an analysis allows the study of research problems with larger data sets, that often include under-represented populations, yet conserving time and resources.

Secondary data analysis has the benefit of cost savings (Boslaugh, 2007), as no resources have to be spent to obtain data, with a corresponding saving in time. The researcher can devote their time for analyzing the data, as the data set has been collected, cleansed, and saved in an electronic format.

In terms of data analysis in a case study approach, analysis refers to a thematic approach. This limitation is necessary to allow the thorough investigation of the complexity of a case study as a bounded system.

4. DISCUSSION OF RESULTSS

4.1 PALM OIL TRADE BETWEEN INDONESIA AND THE EUROPEAN UNION

Before the ban of CPO in the EU, Indonesia views EU as one of their major markets apart from India and China. However, before the ban has been passed by the EU, there were already negative comments and backlash Indonesia was receiving in regards to the export of CPO. Due to environmental and health concerns, the entrance of CPO into the European Union was beginning to be prevented. Mudslinging has continued throughout 2017. (Indonesia-Investment, 2017) Several European authorities identified palm oil as a cancer risk. When palm oil is refined at temperatures reaching 200°C, it produces more cancer-causing impurities than any other edible oil, according to the European Food Safety Authority (EFSA). These negative backlashes, according to Sahat Sinaga, Executive Director of the Indonesian Vegetable Oil Refiners

Association (GIMNI), have a massive effect on palm oil consumption in the European Union.

Table 1: Indonesia's Palm Oil Export Volumes to Top Markets (in thousands of tons)

	2011	2012	2013
EU	4 000	5 752	5 624
EU*	3 500	3 650	4 800
EU**	2 022	2 842	2 342

Source: (Indonesia-Investment, 2017)

In 2016, Indonesia was projected to export only 3.3 million tons of palm oil to the European Union, down 21% from 4.2 million tons in the previous year. (EU Big Market for Indonesian Palm Oil, but Big Challenges Remain | Indonesia Investments, 2017) The figure may continue to drop in the future, and Sinaga saw a bleak future for palm oil shipments to the EU, especially if they are for food purposes.

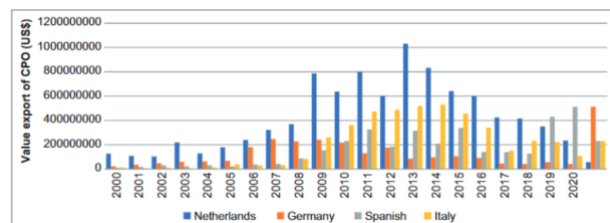


Figure 2: Value of Indonesian CPO Exports to the EU Market

Source: (Jamilah, Zahara, Kembaren, Budi, & Nurmala, 2022)

Except for the fluctuating value of CPO exports to Italy, the value of Indonesian CPO exports to the Netherlands, Germany, and Spain has been declining since 2012. This occurred as a result of a downstream policy in the domestic market (Indonesia) that increased exports of manufactured palm products while decreasing exports of raw CPO, as well as the European anti-CPO campaign that prohibited the use of palm oil-based biofuels and classified palm oil as a high-risk commodity. (Jamilah, Zahara, Kembaren, Budi, & Nurmala, 2022) From 2012 to 2020, Indonesian CPO exports

decreased due to deforestation, followed by the impact of the Covid-19 epidemic.

As a result of campaign against the product linked to perceived deforestation, crude palm oil (CPO) exports to Europe decreased significantly in March, according to Statistics Indonesia (The Jakarta Post, 2019). CPO and its derivatives exports totaled 34.6 million tons in 2018, up from 32.1 million tons in 2017. However, exports decreased by 11% in value in 2018, falling to \$20.54 billion from \$22.97 billion in 2017.

The decline of export to the EU market from Indonesia illustrates the effect of the trade war and the EU sustainability policy. Indonesia as a semi-periphery state exports to core countries. Indonesia's shift from EU to the China's market shows the significance of the EU's ban of CPO and high tariffs of soybean from the U.S. Indonesia being tied up in the middle of the U.S and China trade war allows them as a semi- periphery state to distribute to the core state. However, their export has been influenced by the trade war and the ban of their CPO to EU.

Indonesia, being a semi-periphery state, explains its role in providing for the core state which in this case is the EU. However due to a regional policy the EU has on their environmental sustainability, has impacted the semi-periphery state in Indonesia. But Indonesia, being a semi-periphery state, shows that they are able to develop as well, moving its market to China.

The growing demand for vegetable oil reflects the worldwide community's concern about the looming petroleum and fossil fuel crises, which has prompted them to seek out a renewable energy source (Br Bangun & Hidayat, 2022). This is followed by measures to minimize the negative consequences of climate change and harmful greenhouse gas emissions. One measure is developing renewable energy sources such as biofuels (biodiesel).

The Renewable Energy Directive is a set of EU policies that promote the use of renewable energy sources. This is one of Europe's energy consumption controls, explicitly labeled in the Renewable Energy Directive (2009/28/EC), to boost renewable sources of energy, along with energy efficiency improvements, which are a crucial components of the package steps needed to reduce greenhouse gas emissions. Furthermore, an

essential role in supporting energy security, technological progress, and innovation, and ultimately giving job and regional development prospects, particularly in rural and isolated locations (European Union, 2009). This RED strategy also requires that at least 10% of biofuel energy be used in all member countries. This limits the spread of high-risk biofuels, bioliquids, and biomass fuels on soils with high carbon stocks. This limitation will also have an impact on the amount of fuel that member nations can use to meet their national targets when determining their national share of renewable energy and the renewable energy element of the transport industry. Through this regulation, the European Parliament indirectly cornered CPO, particularly from Indonesia, which was preceded by an official report from the European Parliament stating that Indonesia was the world's largest emitter of greenhouse gases. CPO goods will be phased out by 2030 under the RED II policy and the Delegated Act 2019, which is deemed unsustainable (Br Bangun & Hidayat, 2022). The European Union has their own key targets for the year 2030 that follow;

- A minimum of 40% reduction in greenhouse gas emissions (from 1990 levels),
- A minimum of 32% share of renewable energy,
- A minimum of 32.5% improvement in energy efficiency.

In comparison to other edible oils like rapeseed, sunflower and soybean oils, palm oil has significantly greater potential, beginning with its reasonably consistent supply and ending with its relatively lower price, so it's not unthinkable that it's used in roughly 50% (Br Bangun & Hidayat, 2022) of the commodities currently packed in it. Since the CPO is claimed to be unsustainable, numerous environmental NGOs, particularly those based in EU member states, have launched negative campaigning activities.

Despite the European Union's sustainability policy not having any ties with the ongoing trade war, it does show that the world system theory has its flaws. The regional policy of the EU shows that core states are changing and will have an effect on the semi- periphery states. It just shows how Indonesia being a semi-periphery state needs to adapt because of the regional policy from a core state. Which then goes back to Wallerstein's argument that the WST can be quite harmful to semi-periphery and periphery states. The ones changing their regional policies are most likely to

be core states and allows a development and partnership with semi-periphery states such as Indonesia.

The EU having a regional policy that changes the structure of the system, in this case export and import with a semi-periphery state such as Indonesia shows the imbalance of the WST at times. The semi-periphery state can be affected by the ongoing regional policy or any issues between the core states. Issues such as the ongoing trade war between the U.S and China can impact the hierarchy and world system.

An additional dispute to why the Indonesian government and the European Union might not be on the same page is down to product tracing. Product tracing is a method of addressing possible dangers in human food and animal feed, intended to provide a guarantee that food products in the EU are secure for consumption by Europeans. In case of contamination, to isolate the issue and stop contaminated items from reaching consumers, national authorities or food firms must be able to track risks back to their sources. In Europe, food and feed firms are required to use traceability under the EU's General Food Law, which went into effect in 2002. It mandates the use of unique traceability systems by all food and feed producers. They must be able to pinpoint the origin and destination of their items and quickly communicate this information to the appropriate authorities (European Communities, 2007).

That being said, product tracing is key for any product and food being consumed by Europeans. However, if Indonesia cannot comply to the EU's rules and regulations, it will inevitably halt the export of CPO. CPO products has already been boycotted and protested by many Europeans and EU member states (European Communities, 2007).

Indonesia on the other hand still faces many logistical, and operational challenges in this sector. There are more operational difficulties in Indonesia's food storage and transportation industries. Food farmers, manufacturers, and distributors that distribute perishable items must make sure they are providing the appropriate products to the correct clients as well as supplying the items in the proper condition, along with the rising demand for food products across Asia and throughout the world (Fam, 2015). It will be hard for Indonesia to maintain the level of product tracing the EU has set for their standards.

Indonesia also has its sights on trying to generate palm oil but with the thought of climate change as a priority as well. Indonesia, the leading producer of palm oil and the nation with the third-largest tropical forest area worldwide, has put a three-year moratorium on new plantation licenses. The goal of the ban was to stop forest fires, deforestation, and land conflicts as well as to strengthen oversight, reduce emissions in accordance with the Paris Climate Agreement, and speed up efforts to boost yields among smaller palm oil farmers (Taylor, 2021).

The policy's advantages to date include the publication of official statistics on palm plantations in state-owned forest estates, initiatives to boost smallholder output, improved law enforcement against illicit plants, and evaluations of current licenses (Taylor, 2021).

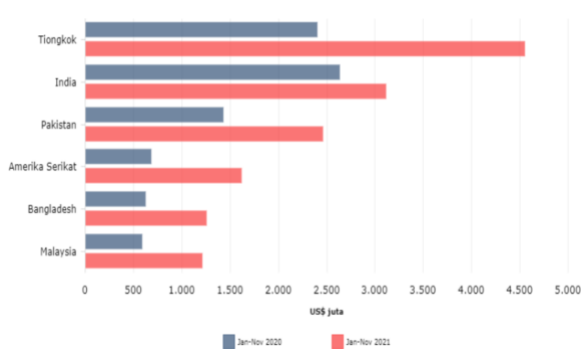
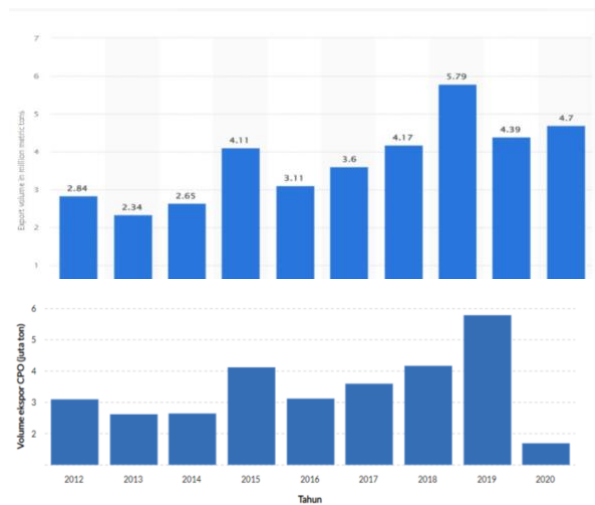
4.2. SHIFT OF CPO EXPORT TO CHINA

Indonesia and China have had diplomatic relations for more than 70 years, during which these countries' deep and mutual partnership has served as a strong foundation for further strengthening their connection. As ACFTA members, these countries provide mutual preferential treatment in three categories: goods, services, and investment, accelerating the flow of these sectors and forming a free trade area (Maria, 2021).

China seeks a new commodity other than soybean that was initially imported by the U.S. However, ever since the trade war, it effected the Indonesian export of CPO. By China having their own regional issue with the U.S. just shows how the WST for developing states such as Indonesia being a semi-periphery state needs to adapt in where they export their own goods.

Indonesia is thought to have a huge chance to enhance the number of palm oil products it exports to China. The chance arises with the start of a trade war between China and the United States. The US government intends to slap significant import taxes on over 800 Chinese products beginning 6 of July 2018. Industrial and manufacturing equipment, electrical goods, and transportation are among the products. As retaliation, China slapped a 25% tariff on 659 US imports ranging from soybeans to seafood to automobiles worth \$50 billion. (Codingest, 2018) The adoption of those import

tariffs will raise the price of soybean oil by



approximately 25%.

As a result, China will attempt to shift soybean oil products to other vegetable oils including palm oil (CPO). China is a major importer of Indonesian palm oil. The Indonesian Palm Oil Producers Association reports that there was a 16 percent increase of CPO exports to China in 2017. (Afra Sapiie, 2018) Indonesia exported 3.73 million tons of CPO to China in 2017, up from 3.23 million tons in 2016.

According to the China Chamber of Commerce of Foodstuffs, Native Produce, and Animal By-Products (CFNA), China's demand for palm oil would likely exceed 10 million tons by 2025, reaching 8 million tons in 2020 (Segi Enam, 2020). You can predict that China will need more and more palm oil when the years past, and Indonesia can really use that to their advantage.

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war between China and the United States. The US government intends to slap significant import taxes on over 800 Chinese products beginning July 6, 2018. Machinery and manufacturing equipment, as well as technological goods and transportation, are among the products available. As retaliation, China slapped a 25% duty on 659 US products, ranging from soybeans to seafood to autos worth \$50 billion. (Codingest, 2018) There is a real demand and market in China for vegetable oils. When soybeans from the U.S are sanctioned with high tariffs, China can surely look into Indonesian CPO.

Figure 3: Export Value of Palm Oil from Indonesia to China from 2012-2021

Source: (Statista, 2022)

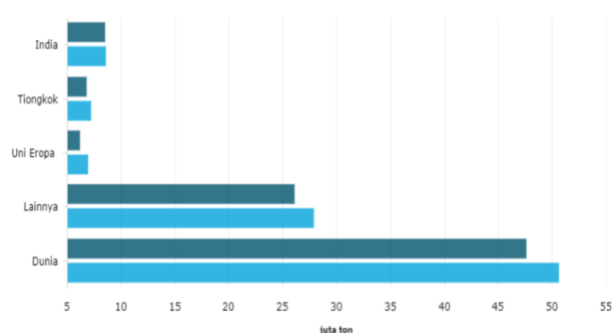
In the figure above, a significant rise is seen in 2018 right when the ban of Indonesian CPO was banned. However, as stated above, China seeks to change from soybeans imported from the U.S because of the on-going trade war.

Figure 4: Volume of CPO Export to China, 2012-2020

Source: (BPS, 2020)

Figure 5: Six Biggest Destinations of CPO Export from Indonesia

Source: (Budy Kusnandar & Mutia, Ini Negara



Tujuan Ekspor Minyak Sawit Terbesar Indonesia | Databoks, 2022)

The volume of crude palm oil (CPO) sent to China until July 2020 was 1.69 million tons. (BPS, 2020) When compared to the same period the previous year, this number dropped to 44.83 percent due to the pandemic which effected logistics and economic flexibility. CPO shipments to China reached a new high of 5.79 million tons in 2019.

Indonesia is among the world's top suppliers of crude palm oil (CPO). China and India account for the biggest market share of overall palm oil exports. CPO exports to these two countries accounted for 29% of Indonesia's total palm oil exports. The value of CPO exports to the Bamboo Curtain countries reached USD 4.55 billion between January and November 2021, (Budy Kusnandar & Mutia, *Ini Negara Tujuan Ekspor Minyak Sawit Terbesar Indonesia | Databoks*, 2022) according to statistics from the Central Statistics Agency (BPS). This amount accounted for 17.47% of the total value of Indonesian palm oil exports. India was the second-largest CPO export destination country, with USD 3.11 billion in exports (11.96 percent). Pakistan came in second with USD 2.46 billion, followed by the US with USD 1.61 billion (9.44 percent), and Bangladesh with US\$ 1.26 billion.

China has managed to be the number one destination of CPO export from Indonesia overtaking India. In 2021 China was only second to India. China has focused their shift from soybean export from the U.S and has been making positive relationships and cooperation with Indonesia ever since the trade war.

For the period of November 2021 to October 2022, the United States Department of Agriculture (USDA) forecasts a global demand for crude palm oil (CPO) imports of 50.6 million tons.

Figure 6: Government Prediction of the World Import of CPO

Source: (Budy Kusnandar & Adhiat, *Proyeksi Permintaan Impor CPO Dunia Capai 50,6 juta Ton pada 2021/2022 | Databoks*, 2022)

The figure above states that there is a 6.3 percent growth over the November

2020-October 2021 period. India is expected to have the highest demand for CPO, with 8.6 million tons expected in 2021/2022. When compared to the preceding period's 8.5 million tons, this figure increased by 1.18 percent. China is expected to have the next highest demand for CPO imports, at 7.2 million tons for the years 2021-2022. This represents a 5.88 percent increase over the previous year's total of 6.8 million tons. However, CPO imports from the European Union (EU 27) are expected to rise 11.29 percent to 6.9 million tons in 2021/2022, up from 6.2 million tons in the

preceding period. (Budy Kusnandar & Adhiat, *Proyeksi Permintaan Impor CPO Dunia Capai 50,6 juta Ton pada 2021/2022 | Databoks*, 2022)

The greatest CPO export from Indonesia in 2021 would be to China, with a volume of 4.7 million tons valued at US\$ 4.83 billion. There is a higher demand from China than there is from the EU, where China are importing 7.2 million tons for the years 2021-2022, whereas the EU will be projected to import less with 6.2 million tons throughout the years 2021-2022.

Looking from a world-system theory perspective on China's behavior when it comes to the environment, one can assume that China does not care about the environment and that can have a negative impact to Indonesia. Potentially, Indonesia can suffer from that. Deforestation, water pollution from sewage and industrial waste, air pollution in urban areas, and smoke and haze from wildfires are some of Indonesia's major environmental problems. Despite initiatives and programs to help tackle the Indonesia's environmental issue, the progress in stopping environmental deterioration has been slowed down by conflicting duties across government agencies, inconsistent environmental monitoring by regulators, and other legal difficulties (Dawborn, et al., 2017). Having China as Indonesia's export of CPO from EU who has a different view on environmental issues can assume that Indonesia will suffer under that.

From the perspective of the WST, China does not prioritize and care about their human labor and the fairness going on in comparison to the EU. Using British IPE and the WST, trade should be focusing on fairness, human rights, and climate change. In China. Employees are exposed in their local environments (youth, elderly, disabled, foreigners, rural migrants). In the sense that there is a significant threat associated with leaving or attempting (losing up to a year's pay, failing to graduate, or experiencing physical abuse or worse), employees are tightly bound to their employers. Despite years of awareness-raising by NGOs and the media, the intimidation remains ongoing and pervasive inside the different sectors (Bengtson, 2018).

In regards to China's labor policies, people in Indonesia can be exploited. Indonesia being a semi-periphery state, usually see the core countries as a

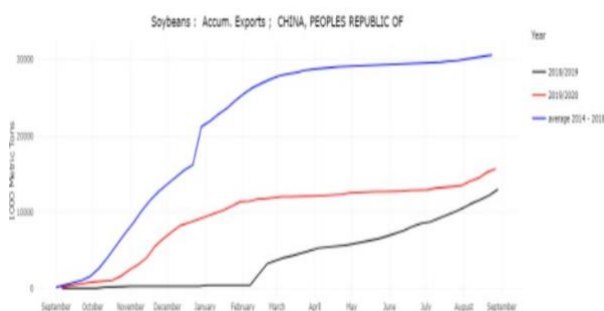
country they want to be or aspire to be. China as a core country has a negative impact when looking at it through the WST.

Wallerstein believes that the semi-function periphery's goes beyond occupying a clear middle ground in the global labor market. In the same way that a middle class may ease tensions between workers and capitalists, it also serves a political role in the system by deflecting demands from the periphery (Robinson, 2011). However, when China become the core market for Indonesia, they might have a negative influence because of China's tension between workers and capitalist. But it should be the opposite with Indonesia being a semi-periphery state.

4.3. THE PALM OIL TRADE AND U.S. & CHINA TRADE WAR

The US and China have imposed tariffs on each other's goods worth hundreds of billions of dollars. China feels that the U.S. is attempting to stifle its emergence as a global economic force. (BBC, 2020).

China's trade surplus with the US, according to the US, is the result of unfair practices, such as state assistance for domestic enterprises. It also accuses China of taking US companies' intellectual property. The aftermath was China has announced that tariffs on \$60 billion (£46 billion) in US imports will be raised on June 1, prolonging a trade conflict between the two countries. (BBC News, 2019) Beef, lamb, and pork products, as well as numerous vegetables, fruit juice, cooking oil, tea,



and coffee, are all affected.

The effects of the US-China trade war have proven detrimental to Asian exports. International commerce has drastically decreased in China, Japan, South Korea, India, and Indonesia. When China depreciated the yuan, which the Trump administration perceived as currency manipulation,

the US-China trade war intensified. Asia as a whole was impacted by this. The Fed's decision to lower interest rates is being followed by central banks including the Bank of Thailand and the Bank of Indonesia, which is impacting global product demand. Despite the expanded market openings, it will be exceedingly difficult for Asian nations to benefit much from the trade war if this trend persists (Julija, 2022).

An agreement on trade involving Australia, China, Japan, South Korea, New Zealand, and the 10 ASEAN nations is known as the Regional Comprehensive Economic Partnership (RCEP) (Ranald, 2021). Beginning in a region where there is already economic integration and connectivity with existing trade agreements China is either the biggest or second-biggest market for all the countries in the region, and it also contributes significantly to imports (Ward, 2020).

The RCEP received some contradicting points whether or not they are able to express any help regarding human labor. Internationally renowned labor rights and environmental standards are not a priority for RCEP. China on the other hand has been accused of those issues, despite China being the core leader of this pact. There is growing evidence of labor and human rights violations in RCEP members like China and Myanmar. However, the RCEP has no measures to address problems like child labor or forced labor, nor does it make any mention of climate change (Ranald, 2021).

Indonesia might suffer from China's action. China, a core state whom is very powerful economically, have many semi-periphery and periphery states depending on them. However, they do not share the same principle as the WST of making trade fairer, protect the environment, and human rights. RCEP is a big pact, but China manages to show what might happen in the future to Indonesia.

4.4 IMPACT OF THE TRADE WAR TOWARDS EXPORTS OF U.S. SOYBEAN

Figure 7: Export of Soybean from the United States to China

Source: (Smith, 2021)

In the years 2014-17, American farmers generated around \$40 billion worth of soybeans, with nearly a quarter of them going to China. In response for US trade moves, China imposed a 25% tax on US soybeans in 2018. In 2018-19, US soybean shipments to China totaled 15.7 million metric

tons, and in 2019-20, the figure dropped to 13.0 million metric tons. In both periods, these figures represent less than half of the pre-2018 average.

Prior to 2018, the US and China had established a strong soybean trade partnership. The United States is one of the world's leading soybean producers, while China is a major soybean user. Both countries have strong reliance on each other for this commodity. However, after the imposition of retaliatory tariffs, U.S. soybean exports to China decreased, and Chinese buyers turned to other nations, particularly Brazil, for lower-cost soybeans. Although U.S. soybean exports to other trading partners grew, these were not enough to offset the fall in exports to China. As a result, stockpiles grew considerably in 2018, resulting in a steep drop in soybean prices in the United States (Cowley, 2020). Even though soybean exports grew worldwide, countries still felt the effect of the trade war between the U.S. and China. The core countries managed to have an effect on the semi-periphery countries.

A reduction in imports from China was blamed for the majority of the drop in US soybean exports. Despite anticipation of a reshuffle in foreign markets, a surge in US sales to other nations in 2018 was not enough to balance a drop in exports to China. Following the imposition of retaliatory tariffs, U.S. soybean exports to China decreased, and Chinese buyers turned to other nations, particularly Brazil, for lower-cost soybeans. Although Chinese tariffs on U.S. soybeans originally disrupted markets and associated with variations uncertainty, other supply and demand factors have contributed to a reshuffle in soybean markets (Cowley, 2020).

As stated above, despite the U.S. being able to find new buyers, the rise in exports to other nations was insufficient to compensate for the drop in shipments to China. Both core countries' issue with one another created an impact to the soybean market. Semi-periphery states are well indeed being affected by core states. The whole WST structure is being affected by the trade war itself with indirect reasonings such as the tariffs being put upon by the core countries, and specific regional policies such as EU's sustainability policies being put into place. China shifting to Indonesia can be seen as an additional catalyst.

5. CONCLUSION

This research attempted to analyze and answer two research questions: (RQ 1) What will happen if

Indonesia shifts from the European Union to China for Crude Palm Oil exports? (RQ2) Will the trade war between the United States and China influence this shift and if yes, with what kind of effect?

Relational dependencies between states can best be analyzed through the critical lens of the World-Systems Theory (WST). Further assessment of the Indonesian shift of exports from the EU to China may best be assessed in the sector of trade, whilst China's exposure to the United States-China trade war begs question regarding trade war itself. The theoretical framework utilized in this research has been staged by the critical notions and post-positivist approach of the British School of IPE, with the World- Systems Theory acting as the macro-theory and the British School of IPE as the grand- theory. On the level of the micro-theory this paper discusses implications concerning trade and trade war.

The theoretical framework, supported by a qualitative research method, has helped to address the research questions stated above. Referring to the preliminary research proposition offered earlier in this research, we can in fact conclude that a critical analysis of an Indonesian shift of palm oil exports from the EU to China, will lead to the shifted Indonesian exposure to dependency, now, however, with potentially more threatening effects. The trade war between the United States and China, may be the result of rivalling core states, acting as a catalyst to previously stated threatening effects–trapping semi-periphery states, such as Indonesia.

The world systems theory claim that core states gain benefit and exploit less developed states. According to the world systems theory, there is a hierarchy of countries: core, periphery, and semi-periphery, whose system remains stable as the global economy evolves.

The European Sustainability policy's ban of Indonesia's CPO has led to a decrease in export to the EU and an increase of export to China. China saw the ban from the EU as an opportunity, thus leading to an increase of CPO to China. The ongoing trade war between the United States and China has led China to direct their attention to CPO from Indonesia, rather than paying their usual soybean from the United States, as the soybeans are tariffed due to their trading dispute. Due to China exporting CPO from Indonesia, has led to them replacing soybean from the U.S. The trade war has

been affected by China finding their own loophole rather than relying on and paying the soybeans that are tariffed. Indonesia surely sees themselves in between the trade war.

Trade wars boost domestic businesses and safeguard national interests. Trade war advocates assert that these conflicts ultimately harm local businesses, consumers, and the economy. Trade protectionism offers the possibility of improving trade balance and protecting the domestic growing sectors, with the drawbacks of economic inefficiencies and a lack of consumer choice. Other nations' reaction is another concern for nations.

We can conclude that events such as trade war between two states or more can indeed be caused by an issue in the hierarchy of the countries based on the world- systems theory. In addition, because of the ongoing trade war between the core states of the United States and China, semi-periphery states such as Indonesia are exposed to a domino effect. Based on this research, Indonesia's export of CPO to China was a after factor in the ban of CPO in the EU.

With the Indonesian shift of CPO exports from the European Union to China, politico-economic relations from a WST perspective have shifted, too. Such shift is the result of various factors, such as EU-policy-making, consumer preferences within the European Union consumer market, and further implications, such as product tracing. Indonesia's shift to a new market, may in fact be the right 'economic 'choice – after all data presented in the literature review and analysis showcase an enormous Indonesian dependency on its palm oil industry, for instance, in the national labor market.

Nonetheless, neither British IPE nor the WST, seek to improve trade relations in such a manner. What really counts, beyond the mere figures of exports and economic performance, is fairness. Further analysis in chapter 4 has exposed China's lacking approach on various issues, which are also closely tied to palm oil productions and exports. A shift to China for exports, thus, equal a paradigm shift in these issues, too – with dire results for labor forces and environment in Indonesia. As the Indonesian export shift from the EU towards China is surely happens either way, Indonesia as a semi- periphery state must safeguard its own rights to avoid falling into a trap of devastating dependency.

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