



Analysis of Opportunities and Threats of Trade in Plantation Products: A Case Study on Palm Oil and Coffee Trade between Indonesia and Malaysia

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ABSTRACT

This study analyzes the opportunities and challenges of trade with Indonesian plantation products with Malaysia. Key ingredients such as palm oil and coffee are focused on considering that Malaysia is one of Indonesia's most important trading partners and a competitor in the plantation industry. The purpose is to identify potential for trade expansion, sectoral development, and policy improvement in both plantation industries. A qualitative comparative approach is employed, supported by literature analysis from official sources such as the Central Bureau of Statistics (BPS). Export structures, production volumes, and product diversification are analyzed to assess Indonesia's competitive advantages. Findings show that Indonesia and Malaysia have similar plantation export profiles, with Indonesia benefiting from higher volume and diversification. However, global price fluctuations, sustainability demands, and Malaysia's strict quality standards pose significant challenges. The study concludes that Indonesia holds promising opportunities to enhance its trade performance through improved production efficiency, sustainable practices, and strategic bilateral cooperation in both sectors.

Keywords: Agricultural Competitiveness, Commodity Market Dynamics, Regional Trade Integration, Sustainability Standards, Bilateral Economic Relations

1. INTRODUCTION

International trade plays an important role in supporting Indonesia's economic growth. As a country with abundant natural resources, Indonesia utilizes major sectors such as agriculture, marine, and especially plantations to achieve comparative advantage in the global market. Among these sectors, plantations play a strategic role, particularly in rural areas, as a source of foreign exchange and as an economic driver. Due to high global demand and strong production competitiveness, raw materials such as palm oil and coffee are the main pillars of Indonesia's exports. Neighboring Malaysia and other ASEAN members have geographical, cultural, and economic proximity to Indonesia. In the plantation sector, trade relations between Indonesia and Malaysia are not only complementary but also competitive. Both countries are major palm oil producers worldwide and often compete for global export market appeal. However, bilateral cooperation is closely interrelated, especially regarding price stabilization, strengthening sustainability standards, and developing downstream industry research.

Based on data from the BPS (2023), Malaysia is included in the top 10 target countries for Indonesian plantation products. Raw materials such as crude palm oil (CPO), palm oil derivative products, and coffee beans are part of the trade flow and continue to increase year by year. The similarity in territorial proximity and tropical climate makes product exchange between the two countries more efficient and valuable. In the context of regional economic integration, Indonesia and Malaysia are members of trade agreements such as the ASEAN Free Trade Area (AFTA) and the Regional Comprehensive Economic Partnership (RCEP). These agreements provide various facilities, including tariff reductions, simplification of customs procedures, and harmonization of technical standards. This further strengthens the growth potential of plantation products between the two countries (Wulandari et al., 2024). However, these opportunities create challenges, particularly regarding sustainability standards, price competition, and fluctuations in global markets.

Previous research on the competitiveness of Indonesian plantation products, particularly palm oil and coffee, has been a primary focus in several studies. Arsyad et al. (2020) analyzed the competitiveness of palm oil products between Indonesia and Malaysia in international trade using the Revealed Comparative Advantage (RCA) method, showing that Indonesia still maintains advantages despite negative trends in CPO. Meanwhile, Parmadi et al. (2018) comprehensively examined the competitiveness of Indonesia's leading agricultural sector products, finding that the plantation subsector, especially rubber and palm oil, has high competitiveness compared to other agricultural commodities. Another study by Saeyang & Nissapa (2021) compared the competitive positions of Indonesia, Malaysia, and Thailand in the global market for four palm oil products, confirming the dominance of Indonesia and Malaysia as major exporters with the highest comparative advantages.

Previous studies have also explored Indonesia's coffee competitiveness in international markets. Pasolonk et al. (2023) analyzed Indonesia's coffee export competitiveness to five major world markets using the RCA index, finding high comparative advantages particularly in the Egyptian market. Ginting & Kartiasih (2019) focused on Indonesia's coffee exports to ASEAN countries during 1997-2014, identifying Malaysia as the country with the highest comparative advantage based on RCA and EPD indices. However, these studies generally analyze commodities separately and do not integrate the analysis of opportunities and threats in the specific context of bilateral trade between Indonesia and Malaysia as two countries that are both major producers and competitors in the plantation industry.

The novelty of this research lies in its integrative approach that simultaneously analyzes two strategic commodities (palm oil and coffee) within the context of Indonesia-Malaysia bilateral trade relations, with specific focus on identifying trade opportunities and threats. Unlike previous research that tends to be sectoral or uses purely quantitative approaches, this study adopts a qualitative comparative approach supported by literature analysis from official sources to provide in-depth understanding of the trade dynamics of both commodities in the context of bilateral competition and cooperation, while integrating sustainability aspects and quality standards as determinant factors in modern trade. Therefore, it is important to conduct a comprehensive analysis of Indonesia-Malaysia trade dynamics in the context of plantation products to develop strategies for improving competitiveness and strengthening long-term trade relations.

2. RESEARCH METHODS

This study employs a qualitative comparative approach to analyze the trade dynamics of plantation products between Indonesia and Malaysia. The analysis focuses on two major commodities palm oil and coffee due to their strategic importance in both countries' export portfolios. Data were collected through literature review from official and reputable sources, including publications from the Central Bureau of Statistics (BPS), trade reports, policy documents, and previous academic studies relevant to international trade and commodity markets.

A descriptive comparative technique was used to examine similarities and differences in export structures, production capacities, market destinations, and trade performance between the two countries. The study also considered non-tariff barriers, quality standards, and sustainability requirements imposed by the Malaysian market that may affect Indonesia's competitiveness. The collected data were synthesized and analyzed to identify key opportunities and threats in the bilateral trade of plantation products. The findings were then interpreted to develop strategic insights that may support the enhancement of Indonesia's trade performance and long-term economic cooperation with Malaysia.

3. RESULTS AND DISCUSSION

3.1. Indonesia-Malaysia Trade

Indonesian plantation products such as palm oil and coffee are exported in large quantities to Malaysia, both for direct consumption and industrial purposes. According to BPS (2023), Malaysia imports more than 1 million tons of palm oil from Indonesia annually. On the other hand, Indonesia also imports some derivative products from Malaysia that have been processed into high value-added products.

3.1.1. Comparative Advantage

Evaluating the comparative advantage of each country needs to be done to analyze food trade between Indonesia and Malaysia, related to continuously increasing market demand and the impact of existing trade agreements.

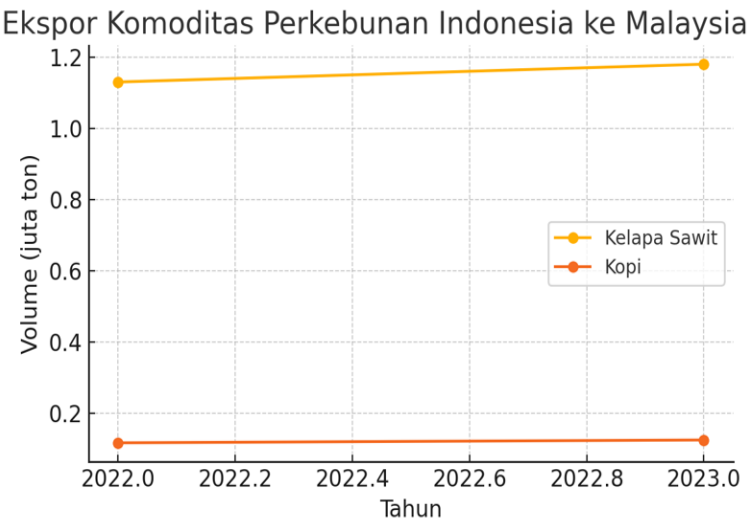


Figure 1. Visualization of comparative advantage graph between Indonesia and Malaysia
Source: Central Bureau of Statistics Indonesia 2022-2023

This graph sourced from the BPS (2024) illustrates the export trends of Indonesia's two main plantation commodities to Malaysia, namely palm oil and coffee, during the period 2022 to 2023. Visually, it can be seen that the volume of palm oil exports to Malaysia shows a much higher level compared to coffee export volume. Throughout the observation period, palm oil export volume tends to be stable, moving within a narrow range between 1.1 to nearly 1.2 million tons. This stability indicates consistent demand from Malaysia for Indonesian palm oil products.

On the other hand, Indonesia's coffee export trend to Malaysia shows different conditions. Coffee export volume is recorded much lower and also tends to stagnate at around 0.1 million tons during 2022 and 2023. The significant difference in export volume between palm oil and coffee highlights the more dominant role of palm oil in plantation commodity trade between Indonesia and Malaysia. The stability in both commodities, although at different volume levels, provides an overview of relatively steady demand patterns from the Malaysian market for both Indonesian plantation products over the past two years.

Indonesia is the world's largest palm oil producer, with production reaching 47 million tons in 2022 (Central Bureau of Statistics Indonesia). This makes Indonesia the main supplier of palm oil for the global market. Indonesia is also one of the world's largest coffee producers, with production reaching 10.9 million tons in 2022 (Ditjenbun, 2022; Kemendagri, 2023). Indonesian coffee is known for its high quality and diverse varieties, such as Robusta and Arabica coffee.

3.1.2. Trade Threats

One of the main challenges in exporting Indonesian palm oil and coffee to Malaysia is significant market competition. As a country that also produces both commodities, Malaysia is not only a potential market but also a direct competitor for Indonesia in third-party export markets. This competition is particularly felt in terms of price and product quality. Both Indonesia and Malaysia compete to offer products with competitive prices and quality that meet international standards, especially in major markets such as India and the European Union. This competitive dynamic requires Indonesian exporters to continuously innovate in improving production efficiency, maintaining product quality, and developing effective marketing strategies to maintain and increase their market share amid tight competition.

In addition to price competition, Indonesian exporters also face challenges related to quality standards and non-tariff regulations imposed by Malaysia. This neighboring country enforces strict quality standards for imported products, including sustainability issues. One example is the MSPO (Malaysian Sustainable Palm Oil) certification, which becomes an important requirement for palm oil products entering Malaysia. Meeting

standards like these requires significant investment and efforts from Indonesian exporters, from sustainable plantation practices to production processes that meet certification criteria. The inability to meet quality standards and non-tariff regulations can become a major barrier to market access for Indonesian plantation products to Malaysia.

The export structure of Indonesian plantation commodities to Malaysia, which is heavily dominated by palm oil, also poses its own threat. High dependence on one type of commodity makes Indonesia more vulnerable to various external shocks. Global palm oil price fluctuations, changes in trade policies implemented by Malaysia, or even environmental issues and negative campaigns against palm oil in international markets can significantly affect Indonesia's export performance to Malaysia. Diversification of plantation export products becomes important to reduce the risk of this dependence and create better economic resilience in facing uncertain global market dynamics.

3.1.3. Trade Opportunities

Economic cooperation established within the ASEAN framework opens various significant trading opportunities for Indonesia and Malaysia. The implementation of import duty reductions and technical standards harmonization substantially facilitates export and import processes between the two countries. This creates a more efficient trading environment and reduces bureaucratic barriers, thereby increasing the competitiveness of Indonesian plantation products in the Malaysian market. Furthermore, this regional economic integration encourages the creation of more connected and mutually beneficial supply chains.

The continuously increasing demand from Malaysia's processing industry sector becomes the main driver of export opportunities for Indonesian plantation commodities. Malaysia's food industry heavily depends on CPO (Crude Palm Oil) supply as the main raw material in various processed products. Similarly, Malaysia's cosmetics and bioenergy industries need CPO supply for their production. Additionally, Indonesian coffee beans with their various types and qualities also have stable demand from Malaysia's coffee processing industry, both for domestic consumption and re-export. This demand diversification provides broader market certainty for Indonesian plantation products.

Indonesia's comparative advantage in terms of palm oil production capacity, which is far greater than Malaysia's, represents a strategic opportunity. With production capabilities that exceed domestic needs, Indonesia has great potential to become the main supplier of palm oil needs in Malaysia that cannot be met by their domestic production. This condition creates mutually beneficial dependence, where Malaysia can rely on stable supply from Indonesia, while Indonesia has a guaranteed export market. This potential can be further optimized through strategic partnerships and investments in the downstream palm oil sector in both countries.

3.2. Indonesia's Agricultural Export Potential to Malaysia

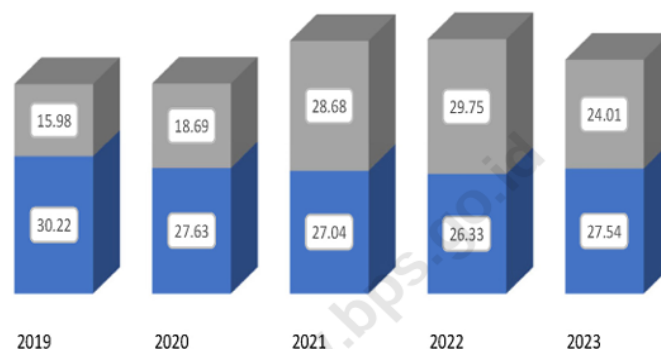


Figure 2. Palm Oil Trade Balance between Indonesia and Malaysia (2019-2023)

Source: Central Bureau of Statistics, 2024

The data displayed illustrates the trade balance between Indonesia and Malaysia during the period 2019 to 2023. In terms of volume, palm oil exports experienced a declining trend between 2019 and 2020, although there was an increase in 2021. The most significant decline occurred in 2020, with total export volume of 27.63 million tons, down 8.55 percent compared to the previous year.

Although export volume decreased, this trend was not aligned with export value which actually showed an increasing tendency. Based on World Bank Commodities Price Data (The Pink Sheet), the average world palm oil price in 2017 rose to 751 US\$/mt, causing a 27.32 percent surge in export value compared to 2016. However, prices declined again in 2018 and 2019, to 639 US\$/mt and 601 US\$/mt respectively.

In 2020, prices rose again to 752 US\$/mt. Despite an 8.55 percent decrease in export volume, export value increased by 16.94 percent compared to 2019. Then from 2021 to 2022, palm oil prices continued to rise, so export value jumped to 29.75 billion US\$ in 2022. However, although export volume increased in 2023, export value actually fell by 19.29 percent to 24.01 billion US\$.

Most of Indonesia's palm oil production is exported abroad, while the rest is marketed domestically. Indonesian palm oil exports reach five continents, with Asia as the main market. In 2023, the five largest CPO importing countries from Indonesia—including Malaysia—contributed 97.64 percent of total national CPO exports. India became the main destination country with export volume of 3.12 million tons or 86.71 percent of total export volume, worth US\$ 2.63 billion. After India, the most CPO exports were sent to Italy and Malaysia with contributions of 4.02 percent and 3.00 percent respectively of total exports.

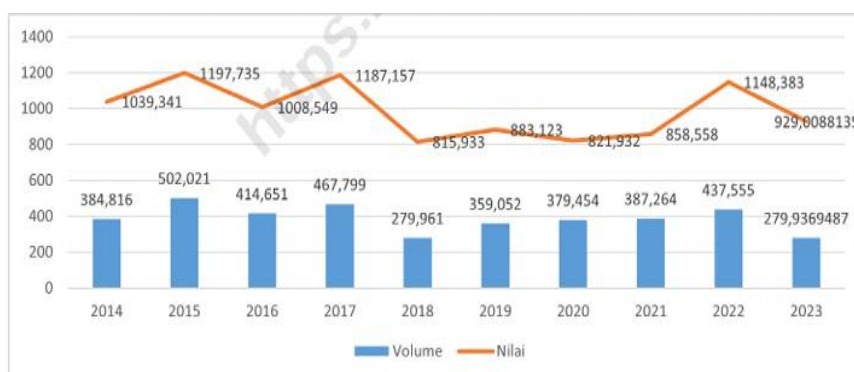


Figure 3. Development of Coffee Trade Volume between Indonesia and Malaysia (2014-2023)

Source: Central Bureau of Statistics, 2024

Based on Figure 3 which presents the development of coffee trade volume between Indonesia and Malaysia from 2014 to 2023, sourced from the Central Bureau of Statistics (BPS) as of November 29, 2024, interesting dynamics can be seen in the coffee commodity trade flow between the two countries. The information accompanying this graph reveals that most of Indonesia's coffee production is intended for the international export market, with a small portion marketed domestically. The reach of Indonesia's natural coffee exports is global, reaching various continents with Europe as the main market share.

More specifically, over the past ten years, the development of coffee export volume and value has shown a fluctuating pattern. In 2014, total export volume was recorded at 385 thousand tons, but decreased to 280 thousand tons in 2023. In line with the volume decrease, total export value also showed a declining trend, from US\$ 1,039 million in 2014 to US\$ 929 million in 2023.

In 2023, Malaysia was recorded as one of the five importing countries of natural coffee from Indonesia. Although the volume or value of Malaysia's imports is not specifically mentioned in this brief description, the fact that Malaysia is among the top five importing countries indicates significant demand from the Malaysian market for Indonesian natural coffee. The bar graph showing Indonesia-Malaysia coffee trade volume during the 2014-2023 period provides a more detailed visualization of volume fluctuations from year to year. An in-depth analysis of these volume trends, which unfortunately is not included in the brief text, would provide a more comprehensive understanding of the dynamics of coffee supply and demand between the two countries, as well as factors affecting changes in trade volume over time. Thus, Malaysia plays an important role as one of Indonesia's main trading partners in the natural coffee sector.

4. CONCLUSIONS

In analyzing the dynamics of plantation product trade between Indonesia and Malaysia, it appears that both countries have complex relationships, colored by synergistic potential and competitive challenges. Indonesia, with its wealth of natural resources and significant production capacity, has great opportunities to strengthen its position as the main supplier in the Southeast Asian region, especially for commodities such as palm oil and coffee. The ASEAN cooperation framework provides a strong foundation to facilitate more efficient trade through tariff barrier reduction and technical standards alignment, which in turn can improve the competitiveness of Indonesian plantation products in the Malaysian market. However, there are several challenges that need to be addressed to optimize this trade potential. Intense market competition, global commodity price fluctuations, and demands for sustainable production practices as well as high quality standards from Malaysia require innovation and efficiency improvements from Indonesia. Therefore, a comprehensive and integrated strategy is needed to maintain and improve the competitiveness of Indonesian plantation products, including efforts to diversify export products, develop downstream industries, and strengthen bilateral cooperation with Malaysia on strategic issues such as price stabilization and sustainability promotion. With a proactive and collaborative approach, Indonesia can maximize existing opportunities and overcome emerging challenges, thereby creating mutually beneficial and sustainable trade relations with Malaysia in the plantation sector.

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