

Assessing the Competitiveness of Malaysia and Indonesia Palm Oil Related Industry

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This study aims to examine the comparative advantage of palm oil related products in Malaysia and Indonesia using the Revealed Comparative Advantage (RCA) approach introduced by Balassa (1989). Our findings based on 20 related palm oil products show the following. Firstly, the RCA indexes for these products in both countries are unstable during the analytical period. Secondly, Malaysia is more competitive than Indonesia in most of the downstream palm oil related industries such as S3-42229, S3-42249, S3-43122, S3-51217, S3-51222 and S3-55419. Thirdly, in some industrial activities, both countries show that the development of certain palm oil industrial products are consistent with the product life cycle (PLC) theory. They are mainly upstream industrial products such as the S3-08138, S3-42221, S3-42231, S3-42239, and S3-42241 commodities. As the biggest producers of palm oil, both countries should put more emphasis on downstream industrial products--which are of higher value-added--taking the benefit of their comparative advantage in upstream industries.

JEL Codes: F14, and Q17

1. Introduction

Over the last four decades, the palm oil industry has expanded dramatically as one of the global major oils and fats resources. The share of palm oil production from total world oils and fats has increased by 16.8 percent, from only 4 percent in 1962 to 20.8 percent in 2002 (Basiron et al., 2004). This significant figure portrays the importance of palm oil as one important source of Malaysia's export incomes. From merely concentrated on simple cultivation and crude oil processing during early 1980s, palm oil industry in Malaysia has grown to more diversified downstream products which are of higher value-added (Rasiah and Shahrin, 2006).

In spite of significant and drastic share of palm oil related products in world production, there is still a large gap in existing literature in addressing the issues pertain to the development of this sector. The shortcoming is mainly because of two reasons. Firstly, due to the nature of palm oil industry; and secondly, due to insufficient statistical information, which impedes empirical studies on the economic impacts and business potential. On the other hand, studies on environmental impacts of palm oil plantation, which are rather critical especially to the producing countries, are well documented. As far as analytical studies on business and economic potential of palm oil related industrial sector is concerned, a large bulk of the existing documents related to Malaysia

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