This is the pre-peer-reviewed version of the following article: Malaysian investors in the Indonesian oil palm plantation sector: home state facilitation and transboundary haze. Asia Pacific Business Review 19 (3): 381-401, which has been published in final form at:

Malaysian investors in the Indonesian oil palm plantation sector: home state facilitation and transboundary haze

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This paper analyses the regionalization of Malaysian oil palm plantation firms into Indonesia. These firms have been implicated in starting fires to clear land for planting, which has resulted in transboundary haze. This paper argues that these Malaysian investors have been able to burn with impunity, despite the dire consequences of haze on their home country, because of the close patronage relationships and vested interests of the Malaysian government elites in these companies. Because of this, the home government is inclined to protect and defend the actions of these firms in Indonesia against such allegations, while the Malaysian public continues to suffer the haze.

Keywords: foreign direct investment; Indonesia; Malaysia; oil palm; patronage politics; regionalization

Introduction

‘Regionalization’ refers to often undirected processes of integration that arise from markets, private trade and investment flows, and the policies and decisions of companies (Breslin and Higgott, 2003). Therefore, economic regionalization is commonly understood as the outcome of natural market forces. Economic regionalization is generally understood to be a bottom-up process (Pempel, 2005); the outcome of natural economic forces (Wyatt-Walter, 1995), primarily
driven by the private sector (Beeson, 2007). It involves autonomous economic processes which lead to comparably higher levels of economic interdependence within a given geographical area. The growth of intra-firm trade, the increasing numbers of international mergers and acquisitions, and the emergence of increasingly dense networks of strategic alliances between firms are of particular importance (Hurrell, 1995). Therefore, it is a process which deepens the integration of particular regional spaces through the redefining and reconfiguration of social and economic relations occurring over a regional terrain, often resulting in the emergence of common forms of market organization and economic strategy (Payne, 2004).

However, scholars have noted that economic regionalization in Southeast Asia has traditionally not been entirely let up to the markets. Southeast Asian states often play a very active role in the regionalization of their home firms, resulting in a unique process of Southeast Asian regionalization that is simultaneously market-driven and state-facilitated (Pereira, 2005). Among the arguments adopted by scholars to explain this are the high levels of vested interests that exist between home states and their regionalizing firms in Southeast Asia. It is common to find close relationships existing between the ruling and economic elites in Southeast Asia (Enderwick, 2005). Because of this, Southeast Asian governments would be more inclined to take a proactive role in facilitating the regionalization of their home firms, to ensure that their mutual interests are preserved in the host country.

**Economic regionalization in theory**

Explanations of the regionalization of firms are largely based on theories derived from Western trends of internationalization and regionalization. This includes the Investment Development Path Theory, the Uppsala Model, and the Product Cycle Theory. The Investment Development Path theory relates the net outward investment of a country to its stage of economic development. At
low levels of economic development (stage 1), there is little inward or outward investments. As the country develops (stage 2), inward investment becomes attractive, particularly in import substitution projects. Some outward investment may take place, for example, in neighbouring countries at lower stages of development. Most developing countries with some outward investments are at this stage. With further economic development (stage 3), net inward investment declines while outward investment increases. Outward investment tends to increase to countries at lower stages to overcome cost disadvantages in labour intensive industries and also to seek markets or strategic assets. At stage 4, net outward investment becomes positive with production being internationalized. Most developed countries are at this stage (Sim, 2006).

The Uppsala Model of incrementally higher commitments to regional business expansion is based on knowledge acquisition and learning about the regional market. The steps of regional activities start with export to a country via an independent representative or agent, followed by the establishment of a sales subsidiary and eventually production in the host country (Sim, 2006).

The Product Cycle Theory in turn promotes regionalization to the less-developed economies to lower costs in the interest of price competitiveness. Firstly, production will be located in the most advanced country where high income can support the new products. Local companies increasingly substitute labour with capital-intensive technology until the product matures and becomes standardized. This results in economies of scale that stimulates large-scale production and enables it to be exported. However, transport and production costs influence the firm’s decision to relocate. When the product becomes standardized to undifferentiable levels and has to be competitively priced, the firms would be forced to move to the less-developed economies to lower costs (Haji Mat Zin, 1999). In various ways all of these theories promote the idea that regionalization is usually a market-driven process.
While informative in explaining regionalization in general, these Western theories on economic regionalization have often neglected the institutional or contextual perspectives that have been very important in the regionalization process of Southeast Asian firms. Southeast Asian scholars like Sim (2006), Pempel (2005), Breslin and Higgott (2003) have noted that alongside market factors, the role of the state as facilitator for regionalization as an important driver of economic regionalization in Southeast Asia. In the Southeast Asian context, economic regionalization, while still largely informal and market-driven, has been actively facilitated by both home (origin of firm) and host (destination of investment) states (Breslin and Higgott, 2003, Pempel, 2005, Sim, 2006).

**Literature review: Economic regionalization in the Southeast Asian context**

The benefits of regionalization became increasingly obvious to Southeast Asian policy makers over time, and this explains the changing attitudes towards it in the region during the early 1980s (Sim, 2005). Both home and host states recognised the potential of economic regionalization to enhance their international and domestic competitiveness, as best practises and technological know-how can spill over through linkages with suppliers and through competitive imitation among other industry players (Carney and Dieleman, 2011). Therefore, from a negative view, reflected in policies aimed at keeping foreign firms out, this shifted to a position where substantial resources are spent on encouraging regionalization and attracting foreign (especially regional) firms (Lipsey and Sjoholm, 2011). Indeed, Southeast Asian governments viewed economic regionalization as a strategic instrument external to the market that could potentially change market outcomes in favour of local and regional, instead of international players (Goh et al., 2001, Sim, 2006).
Many regional governments therefore introduced specific government policies to encourage economic regionalization (Goh et al., 2001, Pempel, 2005, Sim, 2006) and proactively coordinate regional investment outflows and inflows (Rasiah et al., 2010). For example, home governments often offered fiscal incentives by exempting taxes or remittances (Rasiah et al., 2010). Furthermore, home governments have been known to coordinate their promotional strategies by pooling investors, listing them with their capabilities, and promoting their interests using a website as well as through their embassies and trade ministries located in neighbouring countries. The same organizations and mechanisms have been used by home governments to present business opportunities abroad to firms from their own countries (Rasiah et al., 2010). Furthermore, some host governments have sanctioned the relaxation of barriers to trade and investment (like the mutual exchange of goods, services, capital and people) especially for regional neighbours as a way to facilitate investment from the region (Breslin and Higgott, 2003). These host governments often have streamlined incentive and grant packages offered especially to regional firms (Rasiah et al., 2010).

Host governments also often coordinate with home governments to help investors by improving information flows, reducing risks and red tape, (Rasiah et al., 2010), and facilitating access to business contacts and government officials in host countries (Goh et al., 2001). Neighbouring governments also often proactively engage in bilateral negotiations with each other to establish infra-structural links (Breslin and Higgott, 2003) on behalf of investors. All these factors were instrumental in inducing firms to establish their production bases in neighbouring countries in the region (Goh and Wong, 2011). With this, the regionalization of Southeast Asian firms grew in prominence in the early 1980s (Sim, 2005).
Hypothesis

In short, unlike traditional Western concepts of regionalization which are primarily market-driven, economic regionalization in Southeast Asia has to be understood as being simultaneously market-driven and state-facilitated, and that the two processes are intrinsically linked (Pereira, 2005). This article argues that the high levels of vested interests that usually exist between the state and private sector often encourage government facilitation of regionalization. This article argues that this process is especially prominent in the region’s oil palm sector, where many firms with close relationships to local ruling elite regionalized with active assistance from their home states. Hence, this article focuses on the regionalization of the oil palm sector in Southeast Asia, focusing on Indonesia as the largest producer of palm oil, and Malaysia as the largest foreign investor. It details how the Malaysian government was heavily involved in this process, from facilitation of entry to the establishment and funding of industry lobby groups to protect the interests of their firms in Indonesia.

This article demonstrates this through observation of the region’s oil palm sector. Previous sections reviewed theories on economic regionalization, and discussed the literature on economic regionalization in the Southeast Asian context. The following section elaborates on the methodology used in this research paper. The third section analyses and discusses the data for this research. It details the process of regionalization of the region’s oil palm sector, which is currently centered in Indonesia. It argues that the regionalization of this sector has been distinctly state-led; facilitated by both home and host states. It explains how the Indonesian government opened and closed its oil palm sector to FDI (Foreign Direct Investments) in accordance to the interests and demands of its local firms, before settling finally into an investment-friendly atmosphere. It then examines the entry process of Malaysian firms into Indonesia. It explores the
relationships that exist between regionalizing Malaysian oil palm firms and the Malaysian ruling elite, with many of these companies being either Government-Linked Companies (GLCs) or well-connected private companies. This article argues that these relationships were an important motivator for active government facilitation of these firms into Indonesia. Furthermore, the Malaysian government went beyond facilitation of entry, and was also involved in the establishment and funding of lobby groups to ensure the continued well-being of these companies in Indonesia. The fourth section discusses the implications of this research in terms of business and management practise and theory development, while the final section draws conclusions on this research.

Methodology

This paper uses the triangulation of multiple methods to analyze various sources of data (Louis, 1982), including semi-structured interviews and archival research. It triangulates qualitative information obtained from interviews, government and organizational reports and documents, as well as magazine and newspaper articles written around the time of the event as primary sources, complementing these with secondary sources from books, scholarly articles, and media commentary.

Semi-structured interviews with about 50 people were conducted over a period of six months in the year 2010, three months in 2011 and another three months in 2012 for this research. This was divided among government officials, journalists, non-governmental organizations (NGOs), and academics in Indonesia and Malaysia. Some interviewees allowed the researcher to use their real names for this research and some preferred to remain anonymous. Therefore, the researcher devised a system to maintain uniformity in the classification of interview sources for this thesis. To indicate the country or institution where the interview was
conducted, the letters ‘I’ for Indonesia, ‘M’ for Malaysia, and ‘S’ for Singapore, is used, along with a number to indicate the order of which the interview was conducted. For example, an interviewee who allowed himself or herself to be named, who was the tenth to be interviewed in Indonesia, would appear referenced as, ‘Ali [I10]’. An anonymous interviewee in Malaysia would be referenced as ‘Interviewee M5’.

Analysis: The regionalization of the Southeast Asian oil palm sector

Scholars have noted that there are several strategic drivers for the regionalization of firms to neighbouring countries: efficiency-seeking, asset-seeking, and market-seeking factors (Rasiah et al., 2010, Carney and Dieleman, 2011, Lipsey and Sjoholm, 2011). Each strategy can improve the firm’s performance by lowering its costs, improving its competitiveness, or providing additional revenues (Carney and Dieleman, 2011). For Malaysian firms, the most important consideration driving regionalization has been efficiency-seeking factors (Rasiah et al., 2010, Carney and Dieleman, 2011, Lipsey and Sjoholm, 2011). Efficiency-seeking outward investment is directed at accessing low-cost inputs such as cheap labour, land, natural resources, and materials (Rasiah et al., 2010, Carney and Dieleman, 2011, Lipsey and Sjoholm, 2011). Therefore, the costs of production are particularly important for the location of production networks by these firms in neighbouring countries, alongside a host of other factors including wages, productivity, infrastructure, tariffs and taxes (Lipsey and Sjoholm, 2011).

These efficiency considerations of Malaysian firms were closely related to issues of dwindling land supply faced Malaysia by the early 1980s. Due to land scarcity and degradation as a result of decades of “no-holds barred exploitation” (Barber, 1998), alongside rising farm wages (Hiratsuka, 2006, New Straits Times, 2006, Interviewee M41, 2010), the government of Malaysia actively encouraged plantation investors to expand their operations to neighbouring
states in Southeast Asia (Rasiah et al., 2010), especially to the abundant lands of Indonesia. In Indonesia, the availability of vast, highly diversified natural resources, a huge potential domestic market, a competitive and productive labour force, and a market-oriented economic policy have made it an attractive destination for regional investors (Rajenthran, 2002). In turn, Indonesia required capital investment, expertise and technology for better uses of arable land, which was not available locally (World Investment Report, 2009). Therefore, the Indonesian government also encouraged entry of regional firms (although with some backtracking, as explained below), especially for the natural resource sector, according them an important role to help address investment scarcity in Indonesia (Rajenthran, 2002).

With these inducements and encouragement from both host and home countries, Indonesia has become a major investment destination for Malaysian investments, especially in the oil palm sector (World Investment Report, 2009), as it offered an attractive mix of political order, labour docility, land availability, and lax regulation (Johnston, 2005). Therefore, affluent emerging companies in Malaysia began pursuing careful strategies with the assistance of their governments to relocate low value-added labour-intensive and land-intensive operations to Indonesia, in hopes of reducing the local demand for land and imported unskilled foreign labour (Rasiah et al., 2010). Investments from Malaysian companies in the Indonesian oil palm sector therefore have been particularly active due to attractive economies of scale in terms of land and labour costs (Hiratsuka, 2006, New Straits Times, 2006, Interviewee M41, 2010). The following paragraphs detail this in Indonesia, to provide a better understanding of how Malaysian plantation firms eventually gained a solid foothold in the Indonesian oil palm sector.

*The regionalization of the Indonesian oil palm sector*

Foreign investment activities in Indonesia are based on Law Number 1/1967 on Foreign
Investment (FIL) (amended by Law No. 11/1970), which formally established the legal framework for FDI in Indonesia (Rajenthran, 2002). The main body of the FIL consists of 31 articles which essentially outlines the government of Indonesia’s legislative policies towards foreign investment, including licensing, sectors closed or restricted to FDI, and use of land (Rajenthran, 2002). As Indonesia required technology, investment, and a better use of arable land (World Investment Report, 2009), the FIL is primarily patterned to pursue the transformation of potential economic resources into real economic strength and to attract capital, expertise and technological inflow (World Investment Report, 2009), and also to promote partnerships with foreign entities (Rasiah et al., 2010, Caroko et al., 2011). From the 1960s until 1983, the government of Indonesia provided various fiscal incentives such as tax holidays, investment allowances, dividend tax exemptions and accelerated depreciation to foreign investors. At this time, the policy direction had been to promote FDI via offering generous fiscal incentives (Rajenthran, 2002).

As discussed briefly above, there often exists close relationships between local economic elites and the ruling elite of Southeast Asian states. Indonesia is no exception. The largest local plantation companies in Indonesia, Bakrie Sumatra Plantations (BSP), Duta Palma, Astra Agro, Makin Group, and Musim Mas (Van Gelder, 2004) all cultivate close relationships with the ruling elite. Indonesia’s FDI policies throughout the years reflect this close relationship, whereby policies changed according to the demands and needs of Indonesia’s local business elites. A good example of this is that local business elites managed to keep oil palm investments on Indonesia’s ‘negative list’ (of sectors that were blocked out of FDI) until the early 1990s, despite foreign investment-friendly policies put into place by the Indonesian government previously (Rajenthran, 2002). Only after local Indonesian investors had adequately established
themselves in the oil palm sector during the 1980s, did the government of Indonesia finally open up the oil palm sector to foreign investors during the early 1990s to further boost the sector (McCarthy and Cramb, 2009). Half of the area allocated for oil palm development was offered to foreign-owned private estate companies. Further enticements were offered, including streamlining of licensing procedures, granting generous incentives, initiating a privatization programme, the reduction of income tax, and removing or minimizing existing impediments to FDI (Rajenthran, 2002). For example, Government Regulation No. 45/1996 accorded FDI from specific sectors, especially agribusiness, with tax holidays. These tax holidays were introduced as a policy instrument for ramping up investment into priority sectors like oil palm and the underdeveloped regions of Indonesia (Rajenthran, 2002). Other reforms of particular importance were the equal treatment of foreign and domestic investors and the streamlined application procedures for investment approvals (Lipsey and Sjoholm, 2011).

However, foreign investors’ entitlements to land rights and usage were still restricted. As part of the FIL, foreign entities are allowed to register a limited company (Perseroan Terbatas or PT) as either a private or public company (Rajenthran, 2002). But the Basic Agrarian Law No. 5 of 1960 in essence only permits three types of land rights out of 11 for foreign investors; the Right of Building (Hak Guna Bangunan), the Right to Use (Hak Pakai) and the Right to Cultivation (Hak Guna Usaha or HGU). The HGU entitles the bearer to use state-owned land for the purposes of agriculture, fishing and ranching for a period of 30 years. Traditionally, the HGU may only be held by an Indonesian legal entity however, the Indonesian partner in a joint venture company may convey the use of the land to the joint venture company (Rajenthran, 2002). Furthermore, Indonesian policy stipulated that all medium- and large-scale foreign entities may participate in the Indonesian economy only through joint ventures (with at least 20% equity) with
domestic small-scale entities (Rasiah et al., 2010). This meant that most foreign investments in the oil palm sector had to enter Indonesia as joint-ventures with local firms (Surya [I9] and Akbar [I10], 2010), ensuring that local entrepreneurs were not left behind.

Despite these restrictive policies, the sector attracted considerable investment from overseas, primarily Malaysia. For example, the early 1990s saw the first entry of investments from companies like Malaysia’s Kuala Lumpur Kepong (KLK) (Kuala Lumpur Kepong Berhad, 2010) and Tabung Haji Plantations (THP). These companies established joint ventures with local partners, and then proceeded to ‘take over’ smaller plantation companies as their subsidiaries. This opening was short lived however, as foreign investor interest had become so strong that powerful domestic companies had begun to complain to their allies among the Indonesian ruling elite about having to compete for land. The Indonesian government was thus obliged to concur with the requests of these powerful local companies, and closed the oil palm sector to foreigners in 1997 (WALHI and Sawit Watch, 2009).

The AFC was a watershed in Indonesia and the region in terms of foreign investments in the oil palm sector. When the AFC hit Indonesia in 1997, many prominent Indonesian plantation companies suffered financial difficulties (Interviewee M41, 2010). With IMF structural reforms demanding the opening of Indonesian markets to FDI, foreign investment flowed into the economy, particularly into lucrative extractive and resource-intensive sectors, like agribusiness and oil palm plantations (Marinova, 1999). Opening up of forest concessions to foreign companies (a reversal of the earlier policy, discussed above) was therefore part of the conditionalities that came with IMF assistance to Indonesia after the AFC (Mathew [M8], 2010). As part of the conditionalities, foreign investor companies could purchase companies for the purpose of salvaging and improving the company concerned with the intention to continue
development; to increase marketing or production; to increase exports; and to apply new technology (Rajenthran, 2002). This move was also seen as a way for the Indonesian government to ‘save’ these floundering companies. During this period, Indonesia reintroduced the tax holiday scheme via Presidential Decree 7/1999 to further encourage foreign investment (Rajenthran, 2002). Furthermore, government regulations in 1998 allowed foreign entities to sell their own products directly to other corporate entities in Indonesia who use these products for raw materials in their production processes, and also distribute their own finished products within Indonesia through a foreign owned distributor or wholesaler. Given the huge potential market size of Indonesia (with a population of 240 million), domestic market penetration was indeed attractive (Rajenthran, 2002).

Therefore, in the aftermath of the AFC, states in the region that were less severely affected by the crisis like Malaysia began increasing outgoing FDI to neighbouring countries, and a large part of this went to Indonesia (Marinova, 1999). Malaysian plantation companies once again flocked into Indonesia around the turn of the millennium, on the invitation of the Indonesian government to help take over financially distressed and failed Indonesian plantation companies (Interviewee M28, 2010). This was encouraged by the low prices of Indonesian firms when translated into foreign currencies, Indonesia’s new openness to merger and acquisitions, and the favourable long-term prospects of the crisis-affected Indonesia (Rajenthran, 2002). An example of such a takeover was Malaysian-based Kuala Lumpur Kepong (KLK) who acquired 95% of PT Adei Plantation and Industry, which owned 27,760 hectares of plantation land in Riau in 1997 (WALHI et al., 2009).

Due to the fact that the size of sovereign land that was involved in such deals was unprecedented, there was substantial government-to-government (G2G) involvement from both
sides in these investment arrangements (Interviewee M24 and Interviewee M25, 2010, Interviewee M28, 2010). The government of Indonesia thus executed bilateral investment treaties with Malaysia for specific agricultural purposes (Rajenthran, 2002), including for oil palm plantations. Although the FIL sets out the national FDI framework, bilateral investment treaties are essentially country specific, and hence place the perspectives on the rights, obligations and liabilities of Indonesia with a particular foreign investor country. The basic provisions of such treaties deal with most favoured nation status, national treatment, fair and equitable treatment, adequate and effective compensation, and a dispute resolution mechanism (Rajenthran, 2002). For example, as part of an Indonesian-Malaysian bilateral investment treaty in 1997, the Indonesian government pledged to specially allocate 1.5 million hectares of land to Malaysian developers for oil palm development (Casson, 2002).

This openness to FDI in Indonesia, especially to regional firms, has continued in recent years. For example, in 2007, Indonesia introduced the New Investment Law No. 25/2007 aimed at reinvigorating investment, creating jobs, and reducing poverty. As part of this new law, foreign investors were allowed to obtain land rights with longer tenure. The previous regulations discussed above granted investors the HGU for only 30 years; the new investment law allows plantation companies to lease lands for up to 60 years for the first business cycle, which can be extended for another 35 years (Caroko et al., 2011).

The government of Indonesia however declared another moratorium on foreign investment in the sector in 2011, so as to give more market opportunities to local business elite. In the follow up to this moratorium, the Indonesian Forestry Minister Zulkifli Hasan called on national businesspeople who wish to participate in the oil palm business to take the opportunity to do so, as “there was still plenty of land for the purpose” (Del Gallego, 2011). As demonstrated
in this section, the Indonesian government’s foreign investment policy decisions can be seen to
be reflective of the close relationships and vested interests that exist between the ruling elites and
powerful plantation companies. On more than one occasion, the government was obliged to meet
the demands of local plantation firms that were wary of competition from foreign investors. In
order to preserve the mutual interests of the ruling and business elites, high levels of state
facilitation was needed to shape the process of regionalization of the sector in Indonesia.

As discussed above, Malaysia has played a significant role in the Indonesian oil palm
industry over the last two decades (WALHI and Sawit Watch, 2009). To further illustrate the
state-led regionalization in the sector, the following section discuss in detail the motivations and
circumstances of Malaysian plantation investments into Indonesia.

Discussion: Effects of regionalization on Malaysian outward investment to Indonesia

Prior to the 1970s, outgoing regional investment from Malaysia was insignificant (Goh and
Wong, 2011). However beginning from the 1990s, the Malaysian government encouraged GLCs
and private companies to venture abroad (Goh and Wong, 2011), especially to other developing
countries in the region (Carney and Dieleman, 2011). This was to foster the creation of
successful Malaysian multinationals in the longer term so that they could be part of the regional
and global production network, as stated in the Third Industrial Master Plan and the Ninth
Malaysia Plan (Rancangan Malaysia Ke-9) (Goh and Wong, 2011).

In conjunction with this, firms were encouraged to participate in investment promotion
missions abroad organised by the government, which were often led by Malaysian Prime
Ministers (Rasiah et al., 2010). In fact, there were specific incentives made available to
Malaysian firms to invest abroad, especially for those from industries that were no longer
domestically competitive (Goh and Wong, 2011), like oil palm and other land-intensive and
labour-intensive sectors. For example, the government introduced an explicit policy to promote outward FDI and had negotiated investment guarantees with 64 countries in the 1990s (Rasiah et al., 2010), including with Indonesia on oil palm (Casson, 2002). The Malaysian government also offered tax breaks to Malaysian firms investing abroad. This included a tax abatement on income earned abroad (Rasiah et al., 2010, Carney and Dieleman, 2011) and a tax deduction for ‘pre-operating expenses’ (Haji Mat Zin, 1999). An overseas investment guarantee programme, an Export-Import (EXIM) Bank and FDI advisory services were also instituted (Sim, 2006). The Malaysian government further assisted with governmental networks and ties to host countries like Indonesia, which provided knowledge and access to local markets, distribution systems, connections around local bureaucracy and business systems, as well as potential business partners and even financing (Sim, 2005).

As a result of these initiatives, there was a sharp increase in outward investment from Malaysia in the late 1990s, especially to neighbouring countries (Goh and Wong, 2011). Malaysia’s outward FDI rose from a low of USD 146 million in 1980 to USD 3.4 billion in 1997, and a further rose to RM 12 billion in 2007 (Goh and Wong, 2011), mostly concentrated in the Southeast Asian region (Sim, 2005). For the first time in 2007, Malaysian outflows surpassed the inflow of FDI and this trend continued in 2008 and 2009. As explained above, a major motivation for this, especially in the natural resources sector, was that Malaysia’s rapid development in the 1970s onwards resulted in an increasingly tight labour market and rising labour costs, coupled with a dwindling land supply (Sim, 2005). Therefore, Malaysian firms set up their production bases in host countries like Indonesia to reap benefits of economies of scale and lower prices owing to their large population and abundant lands (Goh and Wong, 2011). Malaysian investments in Indonesia were especially prominent in the oil palm sector.
Malaysian plantation companies in Indonesia

While Malaysia possesses a distinct advantage in capital and related technology over its neighbouring competitor Indonesia, available arable land in the relatively smaller and less-forested Malaysia quickly dwindled (World Growth, 2011). Malaysia has limited opportunity for expansion through land conversion due to developing concerns of eco-certification standards and particular land use restrictions (New Straits Times, 2006, Interviewee M41, 2010). For example, Malaysia has pledged to keep 50% of its forest cover at several international conferences, including the Commonwealth Heads of Government Meeting 1989, the Rio Earth Summit 1992, and most recently the Copenhagen Climate Conference in 2009 (Indonesia in contrast made no such pledges) (Interviewee M19, 2010). United Nations (UN) sources estimated that by 1992, Malaysia only had 56.2% land area under forest cover (Bankoff and Elston, 1994), leaving not much space available for further expansion (New Straits Times, 2006, Interviewee M41, 2010, Tarigan [I23], 2010). In relation to this, the Malaysian government has stopped new forest land from being opened up for crops including oil palm, restricting planting to logged-over land zones for agriculture only (Malaysian Palm Oil Council, 2006). This situation was exacerbated further by the labour scarcity in Malaysia (New Straits Times, 2006, Interviewee M41, 2010, Tarigan [I23], 2010) and the fact that yields on Malaysian plantations are decreasing (World Growth, 2011). All of these factors resulted in a stagnating oil palm sector in Malaysia, with a growth of production of only 2-3% each year (Regional Research Team, 2011).

These reasons, coupled with a limited domestic market, induced Malaysian investors to venture into the potentially large untapped markets of developing countries where labour and land resources are still abundant and costs are relatively low (Haji Mat Zin, 1999). In response to these limitations, the Malaysian government announced that it had acquired land in Indonesia,
Papua New Guinea (105,000 hectares) and Brazil (100,000 hectares) for continued oil palm development (Koh and Wilcove, 2008). With advantageous policies in Indonesia as discussed above, the abundant lands in Indonesia have been an important prospect for expansion and investment for the Malaysian oil palm sector since the 1990s.

The Malaysian oil palm industry is generally populated by GLCs or private companies with close association with the Malaysian ruling elite (Norhashim and Ab. Aziz, 2005). This article argues that this provided additional motivation for the Malaysian government to be highly involved in facilitating the entry of major Malaysian companies to Indonesia (Abdul Mutalib [M42], 2010). As a result, most Malaysian companies that ventured out to Indonesia to run plantations there were already well-established GLCs or major conglomerates in their home state. Major Malaysian investors in the Indonesian oil palm plantation industry include: Sime Darby, Tabung Haji Plantations, Kuala Lumpur Kepong (KLK), Genting Plantations, and IOI Corporation. Sime Darby and Tabung Haji Plantations are prominent Malaysian GLCs, while Genting Plantations, Kuala Lumpur Kepong and IOI Corporation are owned by powerful and well-connected Chinese-Malaysian tycoons. Four of these companies are in the top 50 list of largest companies in Malaysia: Sime Darby at 7th place, Genting at 9th, Kuala Lumpur Kepong at 20th and IOI Corporation at 50th (Gomez, 2009).

With an abundance of land in the post-colonial era (late 1950s onwards), the Malaysian government had established GLCs with specific focus on the natural resource sector. For example, shortly after independence, the Malaysian government facilitated stock purchases of previously private, foreign owned plantations to be converted into GLCs (Naguib and Smucker, 2009). Leadership of these GLC were normally awarded to prominent Malays who were politically well-connected (Lim and Stern, 2003). A good example of this was when the
government-run *Permodalan Nasional Berhad* (PNB, the national capitalization agency) bought over almost eight million shares of the United Kingdom’s Guthrie Corporation and acquired control over about 80,645 hectares of Malaysia’s oil palm plantations. Guthrie, together with another GLC, Golden Hope Plantations, merged with Sime Darby to form Malaysia’s largest oil palm plantation company.

Over the years, PNB and other government entities have retained substantial stake in Sime Darby\(^2\); maintaining the Malaysian government’s control over the company (Greenpeace, 2007). The Malaysian GLC Amanah Saham Trustee Berhad is the largest shareholder with a total stake of 37.3%, followed by the government’s Employee Provident Fund (EPF) with 14.1% stake, and PNB owning 12.2% stake (Regional Research Team, 2011). It is chaired by former prolific Malaysian politicians like the former Deputy Prime Minister of Malaysia, Tun Musa Hitam, and the former Chief Secretary to the Malaysian Government, Tan Sri Samsudin Osman (Sime Darby, 2011). Its CEO is Datuk Mohd Bakke Salleh, who is also Chairman of another GLC Bank Islam (Adnan, 2010), which has been an important financeer for Sime Darby and other Malaysian plantation companies (Surya [19] and Akbar [110], 2010).

The close relationship and vested interests (Hicken, 2011) formed between Sime Darby and the Malaysian government was strengthened over the years as Sime Darby assisted the Malaysian government in their developmental goals, by supporting ‘national causes’ through the undertaking of economically risky but strategically attractive projects (Tay, 2003). For example, when the Sarawak Land Development Board, the government agency that was put in charge of plantation development in Sarawak, was making substantial losses and carried major liabilities in 1987, Sime Darby stepped into to assist the state government by buying over the management of
SLDB and all its plantation assets, including over 24,000 hectares of oil palm in 13 estates (McCarthy and Cramb, 2009).

Another prominent Malaysian GLC operating in Indonesia is Tabung Haji Plantations\(^3\) (Surya [I9] and Akbar [I10], 2010). THP is 68% owned by the government-run Lembaga Tabung Haji (Surya [I9] and Akbar [I10], 2010). A notable director is Dato’ Noordin bin Md Noor, who has been active in the Malaysian political scene since 1976, holding various important positions in the Malaysian ruling party’s UMNO Youth wing (TH Plantations, 2010). With Sime Darby and THP being the major Malaysian players in the Indonesian oil palm sector, it can be considered that up to 70% of the finance capitals of Malaysian plantations in Indonesia are managed by the Malaysian government, drawing a direct link between these businesses and government interests (Surya [I9] and Akbar [I10], 2010).

Even the non-GLC Malaysian companies operating in Indonesia enjoy close connections with the Malaysian government. These companies are usually headed by elite Chinese Malaysians, who rose to prominence through sub-contracting of government contracts from powerful Malays in an ‘Ali-Baba’ arrangement (with the Malay ‘Ali’ receiving the contract through connections, then subcontracting it to the Chinese ‘Baba’) (Norhashim and Ab. Aziz, 2005, Naguib and Smucker, 2009). These Chinese Malaysians eventually built up their own connections themselves among the Malay elite, and built their companies into major Malaysian conglomerates with prominent Malay and Chinese directors.

For example, on the board of KLK\(^4\) sits Tan Sri Dato’ Thong Yaw Hong, the former Secretary General of the Malaysian Treasury and later chairman of the EPF, another government-run entity (Kuala Lumpur Kepong Berhad, 2010). The EPF also holds a 12.2% stake in the company (Regional Research Team, 2011). Another example is the board of the IOI
Corporation\(^5\), which includes Datuk Hj Mohd Khalil B Dato’ Hj Mohd Noor (a Malay), formerly the Secretary of the government’s Foreign Investment Committee of Malaysia (IOI Group, 2011). Yet another example is the Board of Directors of Genting Plantations\(^6\), which is populated by many Malay former military officers like retired Lt. Gen. Dato’ Haji Abdul Jamil bin Haji Ahmad; retired Gen. Tan Sri Mohd Zahidi bin Hj Zainuddin; and retired Lt. Gen. Dato’ Abdul Ghani bin Abdullah. Another director, Tan Sri Mohd Amin bin Osman was formerly the Director of the Malaysian Police Special Branch (Genting Plantations Berhad, 2010).

Due to this vested interests between these companies and elites in the Malaysian government, the state had a particular interest in maintaining the well-being of these countries’ operations in Indonesia (Abdul Mutalib [M42], 2010). Therefore, as explained above, most of these Malaysian companies’ investments into the Indonesian oil palm sector were facilitated by the Malaysian government, through G2G arrangements with Indonesia (Interviewee M24 and Interviewee M25, 2010, Interviewee M28, 2010). Beyond facilitating entry, the Malaysian government was also especially active in establishing and funding industry promotional and lobby groups to further support the ongoing operations of these firms once established in Indonesia.

**State support for established Malaysian firms in Indonesia**

To further facilitate economic regionalization and to uphold its vested interests in the oil palm sector, the Malaysian government was especially active in lending its support to the continued advancement of the Malaysian oil palm plantation firms in Indonesia. For example, the Malaysian government set up epistemic (scientific) and lobby groups, collectively sponsored by both the government and private sector (Interviewee M44, 2012) for this purpose. This included the Malaysian Palm Oil Association (MPOA, which has industry membership and looks out for
the interests of plantation owners); the Malaysian Palm Oil Board (MPOB, a regulatory body focusing on research); and the Malaysian Palm Oil Council (MPOC, a government-legislated company focusing on marketing and promotion of palm oil as a commodity). These groups are collectively known as ‘MPOABC’ (MPOA, 2011, MPOB, 2011, MPOC, 2011, Harun [M49] et al., 2012, Interviewee M53 and Interviewee M54, 2012).

The MPOC has been especially active in supporting the causes of Malaysian investments in Indonesia (MPOA, 2011, MPOB, 2011, MPOC, 2011, Harun [M49] et al., 2012, Interviewee M53 and Interviewee M54, 2012). The MPOC is a company legislated by the government tasked with the promotion and expansion of the oil palm market for Malaysian oil palm companies operating in Malaysia and overseas, by enhancing the image of palm oil and creating better acceptance of palm oil through awareness of various technological and economic advantages and environmental sustainability (MPOC, 2011). It has ten regional offices (Interviewee M53 and Interviewee M54, 2012) and is funded partly by a ‘cess’ (special tax) from the sale of palm oil by the industry (Harun [M49] et al., 2012). It also functions as a watchdog and is responsible for countering ‘misinformation’ and what is regarded as unfair allegations from parties that view oil palm in a negative light (Harun [M49] et al., 2012). It does this by engaging directly with international governments and NGOs through trade missions, dialogues and conferences. It also has a Communications Unit that monitors international news and developments with regards to palm oil, especially negative ones, and if necessary, do ‘damage control’ by producing and dispersing ‘correct’ information and new findings through various channels, including on Youtube (Interviewee M53 and Interviewee M54, 2012).

The links between MPOC and Malaysian investments in Indonesia are clear. For example, Dato’ Lee Oi Hian, the CEO of KLK, is also Chairman of the MPOC Board of Trustees.
(WALHI et al., 2009). On the Board of Trustees is also Dato’ Lee Yeow Chor, a director of IOI Group (IOI Group, 2011), and a council member of MPOA (Milieudefensie, 2010). The CEO of MPOC is Tan Sri Datuk Dr Yusof Basiron, who sits on the board of the two big Malaysian plantation GLCs operating in Indonesia, Sime Darby and THP (TH Plantations, 2010, Sime Darby, 2011). As explained by interviewees, these board members are especially important in determining focus areas of importance for the activities of MPOC both locally and abroad (Interviewee M53 and Interviewee M54, 2012). The MPOC is also very closely linked to the Malaysian Ministry of Plantation Industries and Commodities (Interviewee M53 and Interviewee M54, 2012), the primary body of the Malaysian government involved in brokering the entry of Malaysian firms into Indonesia. Indeed, the MPOC has been known to represent the Ministry at the international level and speak on its behalf (Basiron, 2010).

The MPOC invests heavily in lobbying and advertising on behalf of Malaysian oil palm investments (Wahid et al., 2004). It is often the first agency that identifies trade barriers against palm oil and undertakes appropriate counter-actions (Interviewee M53 and Interviewee M54, 2012). For example, it is currently actively involved in fighting against what it regards as the ‘unfair’ labelling of oil palm products in various countries (Interviewee M45 et al., 2012). In Australia, the Food Standards Amendment (Truth in Labeling – Palm Oil) bill was proposed in 2011 requiring the listing of palm oil as an ingredient in food products, while other oils could remain to be listed as ‘vegetable oil’. The MPOC argued that this was discriminatory treatment towards Malaysian-owned oil palm operations (Suharto, 2011, Van Noordwijk et al., 2011) and a type of trade barrier (Interviewee M45 et al., 2012). In response to this bill, a convoy from MPOC including its CEO, Tan Sri Datuk Dr Yusof Basiron (who, as mentioned above sits on the board of Sime Darby and THP, both important players in the Indonesian oil palm sector)
appeared before a public hearing of the Australian House Standing Committee on Economics in August 2011 (Basiron, 2011b), and was successful in convincing the parliament to repeal the bill. MPOC even brought Senator Xenofon, the senator that proposed the bill, to Malaysian-owned plantations to view conditions on the ground in an attempt to appease the senator. As a result, palm oil would no longer be subject to discriminatory treatment as being the only vegetable oil distinctly labelled on Australian products, and all oils like soybean oil and rapeseed oil would be similarly labelled (Interviewee M53 and Interviewee M54, 2012).

It has also been reported that MPOC has filed a complaint to the World Trade Organization (WTO) against what they claim to be ‘discriminatory’ European Union Renewable Energy Directive 2010 restrictions on biofuel imports (Adnan, 2012), which they argue imposes arbitrary sustainability criteria that limited Malaysian producers’ ability to export to Europe (Basiron, 2011a, Roberts, 2011). The MPOC also actively promotes palm oil produced by Malaysian companies (locally and abroad) as being more sustainable than others (i.e. Indonesia’s). The MPOC has also been known to ‘bad mouth’ CPO produced by Indonesian companies, in the hopes that foreign governments would prefer to buy CPO from Malaysian companies operating in Indonesia instead (Surya [I9] and Akbar [I10], 2010). And, despite the UK Advertising Standards Authority banning a Malaysian Palm Oil Commission (MPOC) commercial promoting Malaysian palm oil as ‘sustainable since 1917’ on the grounds that that Malaysian facilities in Indonesia were found to be operating below industry sustainability standards (WALHI and Sawit Watch, 2009), the MPOC lobby continues to tour Europe and other markets to convince decision-makers, buyers and consumers that Malaysian palm oil, including that produced in Indonesia, is environmentally sustainable (Raman et al., 2008). Furthermore, an interviewee confided that MPOC also funds World Growth, an international
pro-palm oil lobby group that argue that the commercialisation of palm oil is a good way to alleviate poverty among forest-dwelling communities, while ignoring and denying its environmental consequences (Interviewee M44, 2012).

The Malaysian government also proposed and sponsored the creation of the Jakarta-based lobby group, the Association of Palm Oil Plantation Investors of Malaysia in Indonesia (APIMI) in 1999, specifically to promote and protect the interests of Malaysian oil palm operations in Indonesia (Abdul Mutalib [M42], 2010). With funding from the Malaysian government, APIMI has a dedicated office and staff in the Jakarta central business district, and serves as the liaison between the governments of Malaysia and Indonesia over palm oil matters. The Malaysian Ambassador to Indonesia is APIMI’s chairman and the Malaysian Economic Counsellor at the Indonesian Embassy is its patron (APIMI, 2010). APIMI boasts membership of all 18 Malaysian companies operating in Indonesia, and currently has Sime Darby as the head of the board (Abdul Mutalib [M42], 2010).

On the Malaysian government’s invitation, APIMI is among the few selected industry lobby groups that are allowed to attend yearly bilateral economic talks between Malaysia and Indonesia. It also functions as a direct link between Malaysian plantation investors in Indonesia and the Malaysian top leadership. Any arising oil palm issues raised by APIMI members can be forwarded by APIMI directly to the Malaysian Prime Minister’s Department (PMD), and dealt with there. For example, the Executive Secretary of APIMI that was interviewed explained that the latest request for APIMI to the PMD was a request to reduce the CPO tax applied by the Indonesian government to Malaysian investors from 15% to 10%. The PMD is now directly negotiating this matter with the Indonesian government, and according to the Executive Secretary, is approaching agreement (Abdul Mutalib [M42], 2010). With encouragement from
the Malaysian government, APIMI was also instrumental in establishing the Indonesia-Malaysia Palm Oil Group (IMPOG) in 2010, created to further facilitate industry relations between the countries (Abdul Mutalib [M42], 2010).

Because of this governmental support and endorsement, APIMI and its corporate members have enjoyed an elevated role in the Indonesian business community. APIMI has been able to directly raise its concerns to the Indonesian leadership on issues affecting Malaysian investments in Indonesia. For example, in 2000, APIMI was able to directly raise the issue of Native Customary rights (NCR) land during a private meeting with the President. NCR issues were proving problematic to Malaysian companies that attempted to open up land which local communities claimed ownership. As a result of this direct request, the Indonesian President gave Malaysian investors his personal assurance that their rights would be protected against overlapping claims of NCR land ownership by locals (Onn, 2000).

Furthermore, interviewees have also noted that due to APIMI’s influence, special agreements have been reached with the Indonesian government in regards to how to handle allegations of open burnings on Malaysian oil palm plantations, which is believed to cause almost annual transboundary haze pollution in the region. APIMI’s Executive Secretary explained that it has been agreed that if fires are detected on Malaysian plantations, no immediate administrative or legal action would be taken (Abdul Mutalib [M42], 2010, Interviewee M28, 2010, Kamaruddin [M26], 2010) despite the fact that Indonesian law stipulates that those companies found guilty could face heavy sanctions, revocation of their licenses, or prosecution (Tan, 1997). Instead, the incident would be reported to APIMI, who would then communicate it back to the PMD in Malaysia, which will instruct the involved plantation headquarters in Malaysia to merely “report back on the situation” (Abdul Mutalib [M42], 2010).
These reports hardly ever received any follow-up by the Malaysian government (Abdul Mutalib [M42], 2010, Interviewee M28, 2010, Kamaruddin [M26], 2010). Therefore, it can be said that the Malaysian government used its influence through APIMI to obtain special treatment for Malaysian firms in Indonesia.

This section has argued that the vested interests that exist between the Malaysian government and Malaysian oil palm plantation companies operating in Indonesia have encouraged substantial involvement of the state in order to ensure the well-being of these firms there (Abdul Mutalib [M42], 2010). This has extended beyond the facilitation of the initial entry of these firms to Indonesia, but also continued long after these firms were established and operating. Through organizations like MPOC and APIMI, companies that venture into Indonesia still maintain strong links with Malaysia, their home state. These organizations act on the instruction of the Malaysian government to preserve the interests of these firms operating in Indonesia.

**Implications**

It is hoped that this article has brought to the readers a better understanding of the inner workings of the political economics behind the region’s oil palm plantation sector. This article is aimed at two groups of readers; business practitioners and scholars. The following paragraphs detail the implications of this article to these two groups of readers respectively, beginning with business practitioners.

With careful facilitation by the Indonesian government, complemented by natural market factors, Indonesia managed to overtake Malaysia as the largest producer of palm oil in 2008 (Bernama, 2010, Jarvis et al., 2010, Mccarthy, 2010, Reuters, 2011, World Growth, 2011). State-led regionalization of the sector has indeed proven beneficial for the Indonesian economy, with
significant positive spillovers. For example, more advanced foreign firms that entered Indonesia brought along with them knowledge of labour intensive processes, flexible production and appropriate technology (Sim, 2005). In terms of productivity, technology spillovers have benefited domestic plantation firms. Furthermore, the increased competition has encouraged domestic plantation firms to compete to secure market share and survival (Lipsey and Sjoholm, 2011). With the relaxation of barriers to foreign investment in this sector in Indonesia, there has been an increasing number of joint ventures and significantly higher levels of economic regionalization and interdependence within Indonesia’s oil palm sector (Hurrell, 1995). As Figure 1 details, by 2004, around 2.7 million hectares of oil palm plantations in Indonesian was held by foreign investors. Total oil palm plantations in Indonesia that year was 3.3 million hectares (FAOSTAT, 2009), meaning that 82% of Indonesia’s oil palm plantations involved foreign investments.

As a result of state-led regionalization, Malaysia is now the biggest investor in the Indonesian oil palm sector (Lipsey and Sjoholm, 2011). By 1996, 45 Malaysian companies along with their Indonesian partners had been able to secure land banks totaling some 1.3 million hectares (Othman, 2003). In 2004, almost 25% of FDI into Indonesia’s oil palm sector were of Malaysian origin (WALHI et al., 2009). Currently, it is estimated that there are 162 plantations having linkages to Malaysia companies, holding about one-third of Indonesia’s total oil palm land bank. In addition, Malaysian-linked investments, through share holding and direct investments, are estimated to control some 500,000 more hectares of land in the Sumatra and
Kalimantan that have yet to be converted into plantation land (WALHI et al., 2009). In total Malaysian investments hold more than two-thirds of Indonesia’s total plantation area (WALHI et al., 2009). This total area is more than double the total land bank used for oil palm plantations in Malaysia (Interviewee M28, 2010). Malaysian investments in the sector have an investment value of USD 702.4 million (Sawit Watch, 2008). In this way, Malaysia is still able to maintain their prominence in the region’s oil palm sector despite limitations within their home state.

Hence, in terms of implications to business and management practise, this article notes that the contextual perspective is very important for the regionalization of firms in Southeast Asia. Regionalizing firms in Southeast Asia in particular must be aware of the importance of state support and facilitation for their firms when expanding into host states, and must seek to actively gain this support from their home state governments to ensure success in their regionalization ventures.

This case study also brings about implications to the development of theories of economic regionalization. As discussed above, Western theories on economic regionalization like the Development path Theory, the Uppsala Model and the product Cycle Theory have often neglected the institutional or contextual perspectives as an important explanatory factor in the regionalization of firms. Research like this helps to point out the importance of these contextual perspectives in the study of the regionalization of firms. This case study on the Southeast Asian oil palm plantation sector confirms the hypotheses of scholars like Sim (2006), Pempel (2005), Breslin and Higgot (2003) whom have noted that in Southeast Asia, economic regionalization, while still largely informal and market-driven, has been actively facilitated by both home (origin of firm) and host (destination of investment) states (Breslin and Higgott, 2003, Pempel, 2005,
Research like this encourages scholars to think outside the limitations of Western theory and to develop theories that are more contextual or regional.

**Conclusions**

This article further provides evidence, through the examination of the region’s oil palm sector, to support the argument that unlike traditional Western concepts of regionalization which understand the process as primarily market-driven, economic regionalization in Southeast Asia is simultaneously market-driven and state-facilitated (Pereira, 2005). It argues that due to high levels of vested interests cultivated between business and ruling elites in Southeast Asian states, governments are more inclined to take a more proactive role in the economic regionalization of these firms. This often extends beyond mere facilitation of entry of these firms to a neighbouring state. In the case of oil palm in the region, this article has discussed how the Malaysian government was actively involved in establishing and facilitating lobby groups that served to protect the interests of these firms across borders. Therefore, this article argues that close relationships and vested interests between the business and ruling elite of a country is a strong motivator for state involvement in the regionalization process.

**Acknowledgements**

The author would like to thank interviewees from the media, government and civil society in Indonesia, Malaysia and Singapore who willingly shared information and insight for this paper. The author would like to also thank the University of Malaya and the University of Sydney for a scholarship and travel grant respectively for the completion of this research paper.

**Notes**

1. For example, one of the directors of BSP is Bungaran Saragih, who formerly served as Minister of Agriculture under two Indonesian cabinets. A former Minister of Agriculture, Dr. Anton
Apriyantono, is also a commissioner for BSP (Bakrie Brothers, 2010). Also, chairman of the Bakrie and Brothers Group, parent company of BSP, is Aburizal Bakrie, who is also the chairman of the of the strongest and most influential political parties in Indonesia, Golkar (Golongan Karyawan or the Party of the Functional Groups) (Syarif [I2], 2010, Yansen [I43], 2011). Aburizal Bakrie is known for his close relationship with Ginandjar Kartasasmita, an Indonesian politician and former speaker of the Dewan Perwakilan Rakyat Daerah (DPRD, or Regional House of Representatives). He was also a former secretary general of the Indonesian president’s Economic and Financial Resilience Council (Eklof, 2002, p. 235). In the case of Duta Palma, a 30% ownership by the Indonesian military has meant that many prominent former military men have positions within the company (Gilbert, 2009, pp. 2-3). For example, a director at Duta Palma is a staff of the Special Presidential Division of Social Communication, retired Major General Sardan Marbun (Arif [I41], 2011).

2. Sime Darby is Malaysia’s largest TNC as listed on the Malaysian bourse (Yeoh et al., 2011b). It has also been ranked as the world’s biggest TNC in agribusiness industries according to the UN’s World Investment Report (2009). The 2007 merger of three major Malaysian plantation companies, Sime Darby, Golden Hope Plantations and Kumpulan Guthrie established Sime Darby as the world’s largest plantation company by land bank (Tan and Oetomo, 2011), with 850,000 hectares of land worldwide (Regional Research Team, 2011) and the potential to produce 8% of the world’s total oil palm output (World Investment Report, 2009). Plantations are Sime Darby’s most important sector, contributing 62% of total revenue to the company in 2011 (Tan, 2011). Its plantation operations in Indonesia account for about 35% of its total planted oil palm land (World Investment Report, 2009). Today, Sime Darby is the largest foreign company operating in the Indonesian oil palm sector, and the largest exporter of palm oil from Indonesia (Saravanamuttu [S23], 2010).

3. Tabung Haji was launched in 1963 and began as the Malaysian Muslim Pilgrims Savings Corporation. Tabung Haji diversified and increased its investment activities in various sectors like plantations, commerce, construction, property development and manufacturing. Tabung Haji Plantations’ first overseas venture in Indonesia was with PT Multi Gambut in Riau, Indonesia, to operate an oil palm plantation and processing facilities. It holds a 70% equity in PT Multi Gambut and its investment totals USD 256 million (Haji Mat Zin, 1999). Today, Tabung Haji Plantations owns and manages 150,000 hectares of plantation land mainly on peatland in Riau, Sumatra (Interviewee M28, 2010) through the joint venture, PT TH Indo Plantations, which it bought over for USD 5.8 million. In 2010, Tabung Haji Plantations produced a total revenue of USD 117.2 million (TH Plantations, 2010).
4. Kuala Lumpur Kepong is the world’s 7th biggest TNC in agribusiness industries (World Investment Report, 2009). It is Malaysia’s third largest plantation company by market capitalisation (Yeoh et al., 2011b). KLK was incorporated in Malaysia in 1973. It expanded its plantation business to Indonesia from the 1990s. KLK now has a plantation land bank of more than 250,000 hectares in Malaysia and Indonesia, with more than half of that in Indonesia (139,126 hectares). In Indonesia, its total assets are valued at USD 368.4 million, mostly located in Medan, Pekanbaru, and Belitung in Sumatera, as well as Sampit and Tanjung Redeb in Kalimantan (Kuala Lumpur Kepong Berhad, 2010). A significant holding is PT Adei Plantation and Industry (Syarif I2, 2010), which was established under a joint venture with prominent Indonesian lawyer Al Hakim Hanafiah, with 27,760 hectares of land (Saharjo et al., 2003). In 2010, KLK obtained revenue of USD 1.06 billion in palm products, contributing 81% of its profits. KLK is currently converting former rubber plantations and plantation reserves to oil palm in North Sumatra (Kuala Lumpur Kepong Berhad, 2010) and other areas in Indonesia, targeting to open up 25,000 hectares over the next two years (Yeoh et al., 2011a).

5. IOI Corporation is the world’s 44th biggest TNC in agribusiness industries (World Investment Report, 2009). It is the largest Malaysian oil palm group that is listed on the Kuala Lumpur Stock Exchange (Milieudefensie, 2010). IOI Corporation started as a real estate company in 1982, and grew to be involved in various sectors including property, manufacturing and plantations. Its plantations division has developed into an integrated oil palm company involved in the entire value chain of oil palm production. IOI Corporation’s plantation division is the most important and profitable division of the Group, contributing 55% of its operating profit, or USD 110.5 million. The group has a total of 82 estates, with 5% of this total in Indonesia (IOI Group, 2011). IOI Corporation extended its activities to Indonesia in 2005 (World Investment Report, 2009), where it now holds a total land bank of 172,000 hectares in Indonesia (Milieudefensie, 2010). Its associate company in Indonesia is PT Bumitama Gunajaya Agro Group, and this company has planted approximately 6,000 hectares of oil palm to date and is planning to plant a further 27,000 hectares over the next few years, with plans to bring total acreage in Indonesia to more than 35,000 hectares by 2014 (IOI Group, 2011).

6. Genting Plantations is a 54.6% owned subsidiary of Genting Berhad, one of Malaysia’s biggest multinationals (Genting Plantations Berhad, 2010). Genting Plantations commenced operations in 1980, and now owns 66,000 hectares of oil palm plantations in Malaysia and is developing more than 185,000 hectares in Indonesia through joint ventures (Surya [I9] and Akbar [I10], 2010). In Indonesia, Genting Plantations formed a joint venture with the Sepanjang Group, and this group has been Genting Plantation’s partner for all projects in West Kalimantan, namely the Ketapang
Estates, Sanggau Estates and Kapuas Estates. Through these joint ventures, Genting currently hold a total plantable land bank of 80,000 to 90,000 hectares there, of which over 32,000 has been planted. Genting is currently expanding its planted land bank at a rate of 10,000 to 11,000 hectares annually (Yeoh et al., 2011a). In 2010, Genting Plantations undertook its maiden harvesting of oil palm fruits in Indonesia, a ceremony which was attended by local dignitaries and customary heads. This first harvesting delivered revenue of USD 288.3 million (Genting Plantations Berhad, 2010).

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Tables

Table 1: 2004 figures show that Malaysia is the largest Southeast Asian investors in Indonesia
Source: WALHI and Sawit Watch, 2009