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**Global Diakonia and Palm Oil Industry in Indonesia
Embedded Economics for an Interdisciplinary Ecclesiological
Model of Bridging State, Business and Society**

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Abstract

This doctoral dissertation contributes to the academic literature on diakonia science and diakonia management by exploring global diakonia in the palm oil industry in Indonesia. Palm oil for almost three decades has become the backbone of the Indonesian economy. In the Indonesian context, this industry's nature is characterized by the dominance of private transnational corporations, which causes the community, indigenous people, laborers, and smallholders, cornered and face serious unintended social, cultural, economic, and environmental implications. Palm oil brings not only positive but also negative impacts. Even though the industry is taking place in Indonesia, the global supply chain links this sector worldwide. On the basis of this observation, churches are called to practice diakonia in this industry, globally.

Data for this research were obtained through library research and empirical study. Interviews were conducted with the community in Baidub, Papua, together with church workers, governments, and NGO activists. Findings indicate that the community faces food access challenges, land grabbing, unfair payment, and forced lifestyle and cultural change. The study details the historical evolution and contemporary palm oil industry in Indonesia and worldwide. A thorough analysis of the palm oil industry and global market demands, Corporate Social Responsibility (CSR), and palm oil sustainability certifications, enrich the interdisciplinary finding in this thesis.

Towards a more sustainable palm oil industry: maximizing the development benefits to the community while minimizing the negative social, cultural and ecological impacts, the nature of a free-market economy will be replaced with embedded economics to bring the relations back to their place. One outcome of the research is global diakonia with a go-between role, to bring the embeddedness to the state, business, and society. The projected ecclesiological model from this dissertation is interdisciplinary and multirationality.

Keywords:

Palm oil industry, Global value chain, Global diakonia, Corporate Social Responsibility (CSR), Regulatory ethics, Communication, Economic ethics.

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Acronyms

ASEAN	Association of Southeast Asian Nations
ACT-Alliance	Action by Churches Together-Alliance
AGAPE	Alternative Globalization Addressing People and Earth
AusAID	Australian Agency for International Development
BAPPENAS	Badan Perencanaan dan Pembangunan Nasional (National Development Planning Agency)
BfDW	Brot für die Welt
BKPM	Badan Koordinasi Penanaman Modal (Indonesian Investment Coordinating Board)
BPS	Badan Pusat Statistik (Bureau of Central Statistics)
CCA	Christian Conference of Asia
CIFOR	Center for International Forestry Research
CIG	Church Investors Group
CPO	Crude Palm Oil
CPI	Corruption Perceptions Index
CSR	Corporate Social Responsibility
DCGK	Deutscher Corporate Governance Kodex
ECCR	Ecumenical Council for Corporate Responsibility
EKD	Evangelische Kirche in Deutschland
EU	European Union
FAO	Food and Agriculture Organization
FAOSTAT	Food and Agriculture Organization Statistical Databases
FDI	Foreign Direct Investment
FFB	Fresh Fruit Bunches
FPIC	Free, Prior, and Informed Consent
GAPKI	Gabungan Pengusaha Kelapa Sawit Indonesia (Indonesian Palm Oil Association)
GEM	Ecumenical School of Governance, Economics and Management
GPS	Global Positioning System
IFC	International Finance Corporation
JPIC	Justice, Peace, and Integrity of Creation
GBKP	Gereja Batak Karo Protestan (Batak Karo Protestant Church)
GDP	Gross Domestic Product
GKII	Gereja Kristen Injili Indonesia (Indonesian Evangelical Christian Church)
GKI-TP	Gereja Kristen Injili di Tanah Papua (Evangelical Christian Church in Papua)
GKPS	Gereja Kristen Protestan Simalungun (Simalungun Protestant Christian Church)
GNP	Gross National Product
G20	Group of Twenty
HDI	Human Development Index
HCSA	High Carbon Stocks Approach
HCV	High Conservation Values

HGU	Hak Guna Usaha (Cultivation Right Title)
HKBP	Huria Kristen Batak Protestan (Batak Christian Protestant Church)
IDM	International Diakonik Management
IDR	Indonesian Rupiah
IECF	International Economics and Finance
ILUC	Indirect Land Use Change
IMF	International Monetary Fund
ISO	International Organization for Standardization
ISPO	Indonesian Sustainable Palm Oil
JKLPK	Jaringan Kerja Lembaga Pelayanan Kristen Indonesia (The Network of Christian Institutions in Indonesia)
KKPA	Koperasi Kredit Primer Anggota (Prime Cooperative Credit for Member)
LMA	Lembaga Masyarakat Adat (Indigenous Peoples' Tribal Council)
LWF	Lutheran World Federation
MT	Million Tons
MIFEE	Merauke Integrated Food and Energy Estate
MIRE	Merauke Integrated Rice
MP3EI	Master Plan for the Acceleration and Expansion of Indonesian Economic Development
NAFTA	North American Free Trade Agreement
NAP	National Action Plan
NDPE	No Deforestation, No peat, No Exploitation
NES	Nucleus Estate and Smallholder
NGOs	Non-Governmental Organizations
NIFEA	New International Financial and Economic Architecture
OECD	Organisation for Economic Co-operation and Development
OPM	Organisasi Papua Merdeka (Free Papua Movement)
PBS	Perusahaan Besar Swasta (Private Big Plantation)
PERDASUS	Peraturan Daerah Khusus (Special Municipal Regulations)
PGI	Persekutuan Gereja-Gereja di Indonesia (Communion of Churches in Indonesia)
PIR	Perkebunan Inti Rakyat (Nucleus Plasma Scheme)
PNP	Perusahaan Negara Perkebunan (Public Plantation Corporation)
POME	Palm Oil Mill Effluent
PKO	Palm Kernel Oil
PPP	Public Private Partnership
PTP	Perseroan Terbatas Perkebunan (Plantation Limited Liability Company)
PUSKESMAS	Pusat Kesehatan Masyarakat (Public Health Center)
RAPBN	Rencana Anggaran Pendapatan dan Belanja Negara (Draft of Government Budget Plan)
RED	Renewable Energy Directive
REDD	Reduced Emission from Deforestation and Degradation
RES	Renewable Energy Sources
RKP	Rencana Kerja Pemerintah (Annual Government Work Plan)

RPJMN	Rencana Pembangunan Jangka Menengah Nasional (Medium Term National Development Plan)
RPJPN	Rencana Pembangunan Jangka Panjang Nasional (Long Term National Development Plan)
RSPO	Roundtable on Sustainable Palm Oil
RTRW	Rencana Tata Ruang Wilayah (Spatial Planning Regulation)
SAN	Sustainable Agriculture Network
SD	Sekolah Dasar (Primary School)
SDGs	Sustainable Development Goals
SEZ	Special Economic Zones
SGMM	Saint Gallen Management Model
SJSN	Sistem Jaminan Sosial Nasional (National Social Security System)
SKP-KAME	Sekretariat Keadilan dan Perdamaian Keuskupan Agung Merauke (Secretariat of Justice and Peace of the Archdiocese of Merauke)
SMA	Sekolah Menengah Atas (Senior High School)
SMP	Sekolah Menengah Pertama (Junior High School)
STT	Sekolah Tinggi Teologi (Theological College)
TNC	Transnational Corporation
UEM	United Evangelical Mission
UN	United Nations
UNDRIP	United Nations Declaration on the Rights of Indigenous People
USA	United States of America
USAID	U.S. Agency for International Development
USD	United States Dollar
USDA	United States Department of Agriculture
UUPM	Undang-Undang Pasar Modal (Capital Investment Regulation)
WALHI	Wahana Lingkungan Hidup Indonesia (Indonesian Forum for Environment)
WCC	World Council of Churches
WCRC	World Communion of Reformed Churches
WTO	World Trade Organization
WWF	World Wild Fund

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I dedicate this work to you.

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Chapter 1

Introduction

1.1. General Introduction

It has the scent of violets, the taste of olive oil, and color, which tinges food like saffron but is more attractive.

*-Ca'da Mosto, a 15th-century explorer
on discovering palm oil.*

As far back as the 15th Century, Alvide da Ca'da Mosto, a Portuguese explorer who once tasted palm oil in Africa and was said to have written the words above. Mesmerized by his discovery, sense of taste, sight, and reasoning, he had no choice but to conclude with the words: "it is attractive." *Elais Guineensis*, as its scientific name, has proven an attractive commodity, a brilliant prestige to bear the promise of a new era as an energy source, the biofuel. This commodity is also promising a ticket to economic sovereignty, which is not impossible to pursue.

Palm oil has proven a powerful commodity. Various products require a mixture of palm oil as raw material. The increasing demand for palm oil is mainly driven by the rising global demand for food and renewable energy due to the continually increasing global population and the globalization of agriculture.

Indonesia, together with Malaysia, are the two producing countries that reap the most benefit from the supply and demand of the global market. Currently, Indonesia is the top global producer of palm oil, driven by the cooperation between large corporations and the Indonesian state, which offers conditions to promote palm oil. Palm oil and its by-products are being produced nationally and then exported worldwide, becoming part of global production chains, which transnational corporations link to upstream and downstream activities across national borders.

1.2. Research Background

Palm oil is seen as a successful means of developing rural areas, creating job opportunities, enhancing community welfare, and acquiring valuable foreign exchange. At the same time, it has a negative impact on the social situation,

economy, and ecology. With a one-sided focus, people tend to problematize that there are injustices inflicted on the victims, in this case, the community, and that palm oil proliferation has detrimental effects on the ecology. Nevertheless, like the iceberg, the problems on the surface are triggered by a more complex system and the causes underneath.

In my former master thesis, I have addressed the visible issues and offered a solution through diakonia advocacy towards palm oil smallholders for my church Simalungun Christian Protestant Church (GKPS). However, I have also described some macro issues in the thesis though not profound enough. This dissertation will analyze more complex issues around the palm oil industry and its global value chain, particularly the global market system and economic ethics.

After the end of oil glory, when the selling price went down, the government of Indonesia decided to switch from oil to non-oil and gas production, including rubber, wood, palm oil, and palm kernel. To attract investors and increase productivity, the government executed many changes in regulation and decisions, leading to a significant increase in foreign and domestic investment. The International Finance Corporation (IFC) and the World Bank have been investing in Latin America, Africa, and the Asia-Pacific region since 1965 to support the palm oil industry development. The two organizations provided nearly 1 billion USD for 35 projects, of which about 50% was used to fund projects in Indonesia. Indonesia is the most significant investment recipient country. These projects focused on palm oil and were implemented in the 1970s and 1980s.¹

The World Bank regards this commodity as a critical role in promoting the economic development of these countries and ensuring the improvement of the living standards of the rural poor if all environmental, social, economic, and governance risks are addressed. Nevertheless, although these investments were made under the agricultural development policies and procedures of the banks and the International Finance Corporation (IFC), there was no comprehensive strategy

¹ Cheng Hai Teoh, *Key Sustainability Issues in the Palm Oil Sector: A Discussion Paper for Multi-Stakeholders Consultations* (Washington D.C, USA: The World Bank, 2010), pp. 4,13.

for this particular sector. The consequence is that Indonesia emerged as the largest oil palm producer globally, but at high environmental, social, and cultural costs, as indigenous people and smallholders had to be resettled, sometimes forcibly or without adequate compensation, to make way for the private estates.

Oil palm plantations are the fastest-growing monoculture in the world. At present, most palm oil production in the world is used for food and cosmetics. In just one decade, palm oil production increased from 24.3 million tons in 2000 to 53.3 million tons in 2012. The basis of the palm oil industry is an export-oriented model. It can be seen from the fact that 90% of Malaysia's products are exported, while 61% of Indonesia's palm oil products are sold globally.² Leading industrial end-users come from diverse groups along the global value chain, from food products to personal care and cosmetics and energy or fuel companies.

Indonesia is the world's largest palm oil producer. From 1990 to 2010, the area of the plantation increased significantly from 3.5 to 13.1 million hectares, with an annual growth rate of 7%. In 2014, Indonesia's total palm oil production reached 29.27 million tons, surpassing Malaysia's 19.67 MMT. Generally speaking, both Indonesia and Malaysia can produce more than 85% of palm oil globally.³

The palm oil plantation and processing industry in Indonesia have become a key industry and pillar of the Indonesian economy. In 2017, Indonesia's exports reached 168.8 billion USD, with a 16.8% increase from 2016. One of the most significant contributors to these exports is palm oil, which accounted for 13.6% in 2017. In 2017, Indonesian palm oil exports reached 22.97 billion U.S. dollars, increasing 26% over 2016.⁴

This industry has also successfully reduced unemployment. In 2017, around 3.8 million people were employed in the Indonesian palm oil industry, accounting for

² Melanie Pichler, "People, Planet & Profit: Consumer-Oriented Hegemony and Power Relations in Palm Oil and Agrofuel Certification," *The Journal of Environment & Development* 22, no. 4 (December 2013): 370–90, <https://doi.org/10.1177/1070496513502967>, p. 371.

³ Petir Papilo et al., "Sustainability Index Assessment of Palm Oil-Based Bioenergy in Indonesia," *Journal of Cleaner Production* 196 (September 2018): 808–20, <https://doi.org/10.1016/j.jclepro.2018.06.072>, pp. 808-09.

⁴ Amzul Rifin et al., "Assessing the Impact of Limiting Indonesian Palm Oil Exports to the European Union," *Journal of Economic Structures* 9, no. 1 (December 2020): 26, <https://doi.org/10.1186/s40008-020-00202-8>, p. 1.

approximately 2.4% of the total Indonesian labor force.⁵ Moreover, the palm oil industry in Indonesia is considered to contribute to reducing the poverty rate. The partnership program or plasma has helped the farmers to achieve a better life, and the independent smallholders see the high returns to land and low labor requirement of oil palm cultivation as benefitting compared to other crops. The farmers state that the desire or need for cash is the primary driver of palm oil cultivation. They receive the payment immediately on the spot in cash.⁶ This golden fruit is praised as the catalyzer of rural people's economy that successfully takes them out of poverty and plays a strategic role in the national economy. By 2020, the Indonesian government has set an ambitious target of 40 million tons of CPO⁷ because palm oil is seen as a successful means of developing rural areas, creating job opportunities, enhancing community welfare, and acquiring valuable foreign exchange.⁸

There are three main business models for oil palm cultivation in Indonesia: large-scale private plantations, state-owned plantations, and smallholders, independent and nucleus estate. Most plantations are located in Sumatra and Kalimantan, and the dynamic land conversion is likely to increase because of the expansion of oil palm plantations. The final frontier of the palm oil expansion plan will be Papua. The expansion is mainly achieved through the conversion of forests and arable land. The conversion of arable land previously used for subsistence crop production has recently sparked a controversial discussion about the impact on food security, increased poverty, and inequality in income distribution among households. Palm oil is one of the utmost controversial agronomic products in recent decades.⁹ The critics see palm oil as a destructive monoculture plant that

⁵ Truly Santika et al., "Does Oil Palm Agriculture Help Alleviate Poverty? A Multidimensional Counterfactual Assessment of Oil Palm Development in Indonesia," *World Development* 120 (August 2019): 105–17, <https://doi.org/10.1016/j.worlddev.2019.04.012>, p. 2.

⁶ Eva Anggraini and Philipp Grundmann, "Transactions in the Supply Chain of Oil Palm Fruits and Their Relevance for Land Conversion in Smallholdings in Indonesia," *The Journal of Environment & Development* 22, no. 4 (December 1, 2013): 391–410, <https://doi.org/10.1177/1070496513506225>, p. 404.

⁷ Asly Hanu, *Market Transformation by Oil Palm Smallholders* (Bogor, Indonesia: SPKS, 2013), p. 15.

⁸ Oetami Dewi, "Reconciling Development, Conservation, and Social Justice in West Kalimantan," in *The Palm Oil Controversy in Southeast Asia: A Transnational Perspective*, ed. Oliver Pye and Jayati Bhattacharya (Singapore: ISEAS, 2012), p. 164.

⁹ Anggraini and Grundmann, pp. 391-92.

triggers deforestation, driving the destruction of peatlands and rainforests and adding to greenhouse gas emissions. Indonesia itself has provoked a considerable amount of controversy around this issue. Approximately eighteen million hectares of tropical rainforest in Indonesia have been deforested and commercialized.¹⁰ Forest fires are raging across over four million hectares, causing social and health impacts and creating enormous greenhouse gas emissions with far-reaching environmental and economic consequences.¹¹ Due to the rapid extension of oil palm trees, rain forests have been destroyed, causing significant secondary external effects such as water pollution, soil erosion, and air pollution, which are the leading causes of fire and smog crises. According to the World Bank, it emitted large amounts of carbon into the atmosphere, costing Indonesia 16 billion USD.¹² The frequent burning during the dry season has damaged the community's health in places concerned.¹³ Unregulated oil palm expansion poses a serious threat to tropical ecosystems, biodiversity, the Orang-utan and Sumatran tiger, birds and butterfly species, and potentially the global climate.

Besides the ecological impacts, palm oil expansion attracts criticism regarding the social effects of land conflicts, critical labor conditions, and human rights abuses. Vulnerable groups such as women and children are particularly affected through different structures and processes. Consequently, resentment and dissatisfaction have resulted in 3,500 land conflicts in oil palm plantations, of which 660 are closely monitored and documented pertaining to abuses of human rights of indigenous people, local communities, smallholders, and workers.

The uncontrolled expansion will also have severe implications for many rural communities. Some regions of the outer islands suffer especially severe poverty and social problems, requiring attention to secure more appropriately balanced regional

¹⁰ Marcus Colchester, *Promised Land: Palm Oil and Land Acquisition in Indonesia: Implications for Local Communities and Indigenous Peoples* (Bogor, Indonesia: Sawit Watch, 2006), p. 12.

¹¹ Norman Jiwan, Bambang Hero Saharjo, and Jeffri Saragih, *Development of Palm Oil Plantation Based on Greenhouse Gases Critical Perspectives* (Bogor, Indonesia: Sawit Watch, 2009), p. 19.

¹² Philip Jacobson, "Indonesia's Forestry Ministry Follows through on Palm Oil Permit Freeze," *Eco-Business*, May 24, 2016, <https://www.eco-business.com/news/indonesias-forestry-ministry-follows-through-on-palm-oil-permit-freeze/>.

¹³ Zahari Zen, Colin Barlow, and Ria Gondowarsito, "Oil Palm in Indonesian Socio-Economic Improvement: A Review of Options," *World Development* 25, no.10 (February 2009): 1589-1607, p. 4.

development. The growth of oil palm plantations has had considerable impacts on indigenous communities affecting their rights to land, territories, and natural resources they have traditionally owned, occupied, and otherwise used. Oil palm plantations have also undermined the mutual-aid system in Indonesia, called 'Gotong-Royong.' This value is one crucial feature of the Indonesian community. It encourages people; usually, farmers make joint decisions, organize water allocation, plan fertilization, pest control, and harvest crops, which is unnecessary for palm oil.¹⁴

Even though palm oil is produced to meet the food demands in the global market, it is associated with the food crisis, and according to a World Bank report, it accounts for 75 percent of the increase in food prices. Many rice plantations have been converted to palm oil in Indonesia. Once oil palm cultivation has been established on a plot, it is difficult to return to food crop production. Oil palm trees consume huge amounts of from lower groundwater tables. Their roots deteriorate the nearby crops, change the soil structure, and affect the neighboring rice fields, and rice plants cannot compete with oil palms for water.¹⁵

As stated above, this commodity has contributed significantly to the Indonesian economy. Without it, the country would suffer greatly; sustainable palm oil practices fair to workers, indigenous people, and the environment must be implemented. Many stakeholder groups, such as employees, outsource growers, and investing households, have reported significant growth. However, these profits are not evenly distributed. Because other stakeholders, mainly traditional landowners, experience restrictions on land use rights and land losses, land scarcity and price are increasing, and conflicts over land happen in all sites. There are winners and losers, and economic gains come at the cost of a weak rule of law. Governance issues should be resolved, such as poor governance in oil palm management and the attitude of local governments to promote oil palm expansion.¹⁶ Government decision-makers must restrict the use of forest land for plantation development, enforce existing concessions and environmental management regulations, improve

¹⁴ Anggraini and Grundmann, "Transactions in the Supply Chain of Oil Palm Fruits and Their Relevance for Land Conversion in Smallholdings in Indonesia", p. 401.

¹⁵ Ibid, p. 401.

¹⁶ Ibid, pp. 391-93.

labor practice monitoring, recognize traditional land use rights, and make inhabited land transfer agreements a more transparent and legally binding force.¹⁷ This condition requires the sensitivity of the church for its role and calling in public life.

The palm oil plantation is a large-scale production site that requires large tracts of land, labor mass, an effective bureaucracy, high technology, and modern management. Those requirements can be found in private companies, and it is coherent that only those who have capital can master this highly profitable sector. Palm oil proliferation in Indonesia has witnessed the condition that the world closely observes its impact and influence, both negative and positive. Indonesia must not only fulfill global demand without ignoring criticism that continues to hit Indonesia around this issue. Social condition, economy, and environment have to be a serious concern on the country's agenda, particularly in the national development plan.

As in other countries, what is needed in Indonesia is a visionary perspective that reaches far into the future but simultaneously is accompanied by tangible and bold action in the present. Government must be more careful in making important decisions or policies in its country. The attention is not only on economic progress without regard to the welfare of its people. It should not only focus on infrastructure development but ignore justice in the community, human development, and environment.

Likewise, corporations around the world have to be more aware and conscious in operating their business. Company scandals, corruptions, and unethical behavior result in the loss of trust, credibility, and integrity from the world community in this free-market system. People search for corporations who contribute to the creation of the common good, not only for profits. In this dissertation, the corporation's responsibility in the palm oil industry will also be analyzed through their Corporate Social Responsibility (CSR). Both state and corporations should show their responsibilities.

¹⁷ Krystof Obidzinski et al., "Environmental and Social Impacts of Oil Palm Plantations and Their Implications for Biofuel Production in Indonesia," *Ecology and Society* 17, no. 1 (March 16, 2012), <https://doi.org/10.5751/ES-04775-170125>, p. 1.

Besides the state and business, diakonia needs to locate its standpoint and formulate its roles in the public space, especially in the global market and the palm oil industry. However, with its values, can diakonia transform or assist in shaping the global market towards a system based on the principles of human rights, which objective is to bring prosperity and welfare to the people?

There are several layers of concerns of diakonia in this industry, therefore, the study needs to be interdisciplinary. In addition, diakonia is living in a pluralistic society, encountering different actors. The awareness of multi-rationality and multi-stakeholders is crucial to building a framework of the diakonia engagement in this industry. How diakonia shows its perspective and concerns towards the industry and the affected community, particularly on a global level.

1.3. Research Objectives

There are many studies around palm oil proliferation in Indonesia, but diakonia management studies are scant. Consequently, this study will help the diakonia institutions and the churches in Indonesia work on the issue of palm oil to help find the right approach of diakonia actions in a specific context.

The research objectives in order to achieve the aim of the study are to:

- Explore the impacts of the palm oil industry on society and their perspectives to formulate the right approach of advocacy and empowerment or diakonia strategies.
- Investigate factors behind significant increases in palm oil demand and its implications for the Indonesian economy.
- Combine economic analysis and environmental analysis of palm oil expansion in Indonesia which is aimed to formulate more appropriate policy to deal with this challenge.
- Afford an analysis of the development, nature, and principles of Indonesia's National Economic Plan, Indonesian state, and other actors. Thus, understanding the palm oil industry, especially related to Indonesia's economy, is essential. This thesis reviews the development of the palm oil industry in Indonesia from the demand and supply sides and the associated impacts to the environment, and the integration of the palm oil market with those of other vegetable oils.

- Provide an overview of the relevant trends of palm oil global value chains and the actors in the palm oil global value chain to find relevant partners and objectives of advocacy, including the review of policies, norms, and compliances to formulate more appropriate policy.
- Provide an exploration of conceptual knowledge of economic ethics through works of literature to find the principles of the normative basis of diakonia engagement in the global market.
- Provide an analysis of the church's role in the palm oil industry, thereby making recommendations on sustainable strategies for the Indonesian palm oil industry and its economic development plan.
- Identify the right diakonia concept in public life to build engagement with different stakeholders or actors in the global chain of the palm oil industry.

1.4. Research Questions

This research is about the global diakonia from normative and empirical perspectives and how the integration of the global to the local, from global to micro-level, and engagement of diakonia with relevant actors in the global value chain. I also want to find what impacts we can expect from the global diakonia, what elements from global diakonia can be put into practice in this field, and what is missing in the rules and engagement of ecumenical diakonia in the context of the global market.

This study is driven by the lack of research on the church's role in the palm oil industry. This study aims to explore the palm oil industry in Indonesia, its relation to the global value chain, its socio-economic contexts, and develop a global diakonia framework addressing the related issues. Therefore, the primary research question is formulated as follows:

"What ethical consideration and diakonia strategy may be employed (adopted) by global diakonia to shape palm oil industry in Indonesia and the global market."

To answer the objectives of the research, secondary research questions are formulated as follows:

- What are the anthropological, cultural, and socio-economic effects of palm oil proliferation, particularly to indigenous people?
- How has the growth in palm oil affected the Indonesian economy, including the impact on income distribution in the agricultural sector, and what is the source of growth in this industry?
- Why has global palm oil demand remarkably increased?
- Who are the key actors in the palm oil industry, and how are the supply chains segmented/ What is the level of market integration within palm oil?
- What policies have been adopted by the transnational corporations towards sustainable palm oil?
- What are the characteristics or features of the corporations and investors in this industry? What is the economic principle adopted by the market, and what theological approaches are required to determine how Christians should deal with economics and capitalism?
- How to identify stakeholders in the palm oil industry, the engagement model, and with whom diakonia build the network?
- What areas of transformation and instruments will be the primary concerns of the global diakonia strategy?

1.5. Scopes and Limitation of the Study and Expected Contribution to Existing Knowledge

This topic integrates multi-stakeholders and interdisciplinary aspects from economy, theology, diakonia, politics, connecting local, national, and global issues. The areas of transformations are also varying; nevertheless, every aspect needs special concerns. There is no particular theory that will be adopted in this dissertation. This research will explore the normative aspects behind the neo-liberal market economy. The theological approach is required to determine how Christians should deal with economics and capitalism. To find the suitable model of diakonia in the public space will be explored in this study too.

Moreover, it is crucial to listen to the voices of the marginalized, people who are affected by the palm oil industry. Diakonia has to be based upon the people and for the people. To this end, the findings of an empirical study conducted in Papua, Indonesia, as the last frontier of Indonesia's forest, will be placed after this introduction.

This study is limited to developing framework strategies for global diakonia in the palm oil industry and intends to contribute to the growing list of literature that focuses on the palm oil industry in Indonesia. Besides, the research presents new scholarship on the theme of global diakonia. It aims to bridge the ideas of different international institutions and the situation on the ground and as a vehicle for advancing research on global matters through interdisciplinary dialogue and research. Global diakonia is taking the questions of global transnational solidarity and global economic ethic seriously. This research should provide an interdisciplinary study and investigation on the contextual economy, particularly from theological perspectives. It should serve as a reference for scholars, researchers, and universities in economic and theology (diakonia).

Finally, this document should help the churches shape their callings in the world, particularly in Indonesia, to learn together and remind how Christians should deal with the economics and social life of the people towards the common good. It will contribute to the literature in diakonia, advocacy, and ecumenical works in the global context.

1.6. Research Methodology

Writing a dissertation in an inter-disciplinary approach has its challenges but also its opportunities. It contradicts a specialized study, which analyses from one perspective only. This condition is evident since diakonia deals with multiple issues, problems and actors, and should be analyzed from a multi-disciplinary perspective, ranging from theology, ethics, management, economics, and even policies. Through having many different knives to shape the problems, hopefully, an integrated solution could be found. Interdisciplinarity, normativity, theory-praxis connection, are the basis of diakonia science in the *Institut für Diakoniewissenschaft und Diakonienmanagement (IDM) der Kirchlichen Hochschule Wuppertal/Bethel* where I study and write this dissertation. Diakonia science is a context-related and application-oriented science that records and reflects on diakonia practice. It is intended to explain and shape this practice. Interdisciplinary work is carried out by applying scientific methods from different disciplines, such as: theology, ethics, management theory, economics, history and politics, works inductively and deductively. It critically goes back from the state of theoretical research, through practical experience, in the approach to the subject and

the development of the creative concept. Application-oriented science moves between relevant basic science and real problem areas.¹⁸

This interdisciplinary research focuses on the proliferation of palm oil industry in Indonesia, the economic policy, and global diakonia responsibility. How is the perception of global diakonia towards palm oil and its engagement in this industry? Defining global diakonia as a restructuring idea and perspective will be present in this study as well.

An empirical study will be conducted in a community affected by palm oil in Merauke, Papua province, Indonesia. Choosing Papua as a research site is essential since this province has experienced many social and economic human rights violations. The people there are under pressure by military actions, their civil society is strong, and many Non-Governmental Organisations (NGOs) are engaging to help them. Papua also has become a popular destination for companies to open up palm oil plantations since vast forests are still available.

The methodology of this dissertation is qualitative. One of the chief reasons for conducting a qualitative study is that the study is exploring, which means that not much has been written about the topic or the population being studied, and I, as the researcher, I seek to listen to participants and build an understanding based on what has been heard. Qualitative research is a way to explore and understand the importance of individuals or groups to social or human issues. The research process involves the development of questions and procedures, data collection typically in the participant's setting, data analysis that inductively moves from particulars to general themes, and the researcher's interpretations of the meaning of the data. Qualitative research supports a view of research that maintains an inductive style and focuses on personal meaning and the importance of representing the complexity of a situation. Qualitative research uses its gathered data to develop theoretical

¹⁸ See: Matthias Benad, Martin Büscher, and Udo Krolzik, "Grundaussagen des Instituts zum Diakoniewissenschaftlichen Programm," in *Diakoniewissenschaft und Diakonienmanagement an der Kirchlichen Hochschule Wuppertal/Bethel: Interdisziplinarität, Normativität, Theorie-Praxis-Verbindung*, ed. Matthias Benad, Martin Büscher, and Udo Krolzik, (Baden-Baden: Nomos, 2015), pp. 19-24.

ideas, as opposed to experimental research that starts with a theoretical position and accumulates data to test its validity.¹⁹

The data collected originates from (1) qualitative structured interviews (2) qualitative documents: public documents, newspapers, official reports, and documents related to palm oil projects in Indonesia and ecumenical engagement on the economic issues and palm oil industry. Others are supporting data which come from the Indonesian Bureau of Statistics, Indonesian Ministry of Environment, Ministry of Agriculture, Indonesian Palm Oil Commission Board, Food and Agriculture Organization (FAO), United States Department of Agriculture (USDA), International Monetary Fund (IMF), United Nations and others.

Data analysis: Qualitative Analysis on Interviews. The data from the guided interviews will be gathered, including existing findings from related studies and articles. In analyzing the data, hand-coding will be employed. The raw data that has been collected will be analyzed through transcriptions and assign codes. All passages will be located and coded and will be interpreted according to the themes.

Areas of literature to review: Literature concerning (1) Palm oil proliferation in Indonesia (2) Palm Oil Global Value Chain (3) Globalization and its effect to the palm oil issues (4) Diakonia (5) Economic ethics (6) Corporate Social Responsibility (7) Multi rationality and Stakeholder Management.

1.7. Organization of Dissertation

This dissertation consists of eight chapters.

As an introduction to this thesis, chapter one outlines the relevance of this research to diakonia and the palm oil industry, and details the problem statement, research objectives, research questions, and the expected value of this study.

Chapter two contains the empirical study of this thesis. Starting with the empirical research approach and a detailed description of the methodology applied, this chapter presents the analysis and findings of qualitative research through interviews

¹⁹ John W. Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*, 4. ed (Los Angeles, California: SAGE, 2014), pp. 3-5.

conducted by the researcher specifically for this thesis. This chapter builds a basis for the development of the diakonia strategy.

Chapter three presents the profile of palm oil in Indonesia, in terms of production, plantation area, and production chain, the economic contributions of Indonesian palm oil to the national economy, socio-economic and environmental impacts of palm oil, and the Indonesian government policies to support palm oil expansion, including the analysis of the national economic plan.

Chapter four describes the trend of palm oil in the global market, the emerging market for palm oil, and Indonesia's position in the global market. The influence of international institutions, systems, and policies will be explored at the national and global levels.

Chapter five contains the conceptual frames. It comprises the conversation between economics and theology. The philosophies or principles of the free market will be discussed with theological understanding to balance this chapter's standpoint.

Chapter six is the analysis of diakonia, the transformation, and the history of diakonia. In this chapter, the proposal of the diakonia model in the public spheres will be built.

Chapter seven will expand on management and a strategy of global diakonia will be formulated.

Finally, chapter eight summarises the findings of the thesis. Based on the results, this chapter discusses suggestions for further research.

Chapter 2

Empirical Observation

The empirical observation is divided into two different parts with the objective to understand the situation of palm oil in Indonesia from the context of Papua. The first part is the analysis of palm oil in Papua from documented literature. The second part is the perspective of the interviewees. All of these are intended in finding the solution to the situation of palm oil proliferation and its impacts in Papua.

2.1. Palm Oil Proliferation in Papua and Merauke

Rather than boosting the productivity of the existing palm oil, the Indonesian government chooses to expand in the term of land. In 2008, the Directorate General of Estate Crops stated that Kalimantan and Sumatera were already too densely developed to accommodate any new oil palm plantations, and the new land was available in Papua. The Ministry of Agriculture (2005) estimated that Papua had about 5.7 million ha of land suitable for oil palm cultivation.²⁰ In addition, there is a special provision for plantation investment in Papua, where the plantation shall be doubled due to the perception that vast land areas are available for development.²¹ That is why Papua has become the best candidate to accommodate palm oil expansion, and the most vigorous expansion in recent years is taking place in this region.

The first palm oil plantation estates in Papua were developed in the mid-1980s. In 2007, according to the data of the Forestry Department of Papua Province, there were 29,736 ha palm oil plantations which spread throughout the districts of

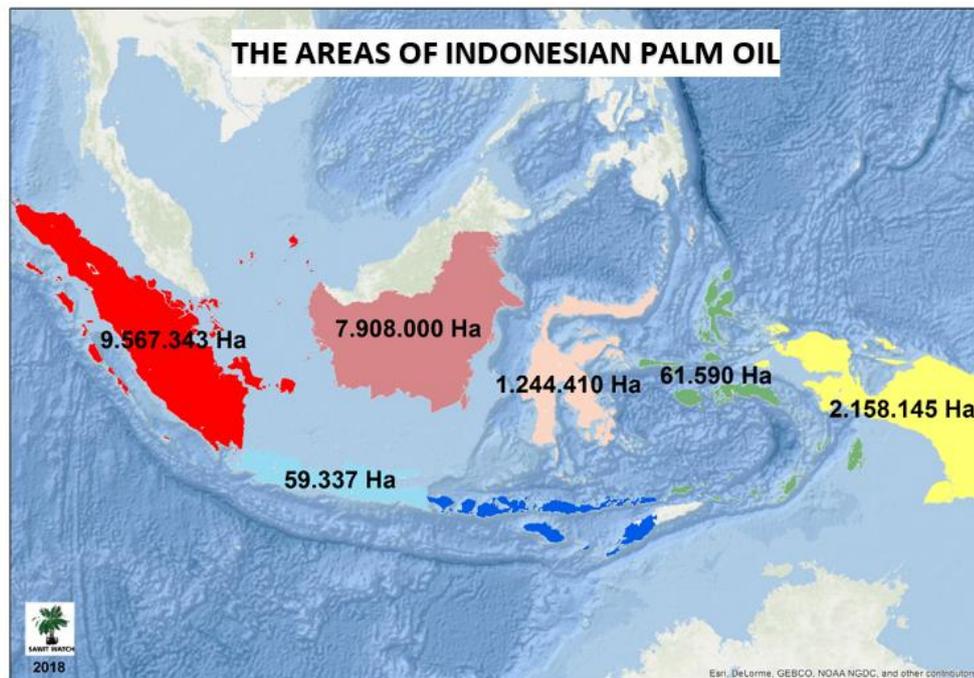
²⁰ Indonesia Minister of Agriculture, "Licensing Guidance for Plantation Business," Pub. L. No. Regulation of the Minister of Agriculture no. 26/permentan/ot.140/2/2007 (2007), <https://www.ecolex.org/details/legislation/regulation-of-the-minister-of-agriculture-no-26permentanot14022007-on-licensing-guidance-for-plantation-business-lex-faoc072955/>.

²¹ Wisnu Caroko and Heru Komarudin, *Policy and Institutional Frameworks for the Development of Palm Oil-Based Biodiesel in Indonesia* (Bogor, Indonesia: CIFOR, 2011), p.10.

Jayapura, Keerom, and Merauke in Papua. West Papua had 31,374 ha in the districts of Manokwari and Teluk Bintuni.²²

The Sawit Watch NGO, as in Figure 2-1, shows that there is 2,158,145 ha of palm oil plantation in Papua in 2018.

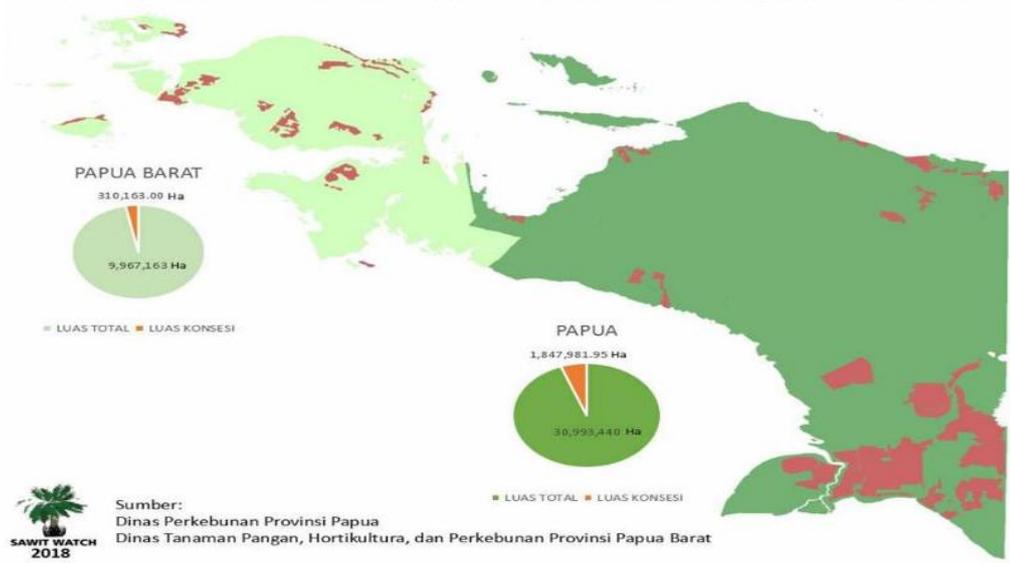
Figure 2-1. The Areas of Indonesian Palm Oil



Source: Sawit Watch, personal correspondence with Sawit Watch NGO in 2018.

On the plantation areas in Papua, there were 99 companies operated. However, only seven companies have successfully developed plantations, 27 companies have cleared land, which mostly started operations in the last five years, while the other companies are in the advanced stage of the permit process, and the others are still applying for the permits. Figure 2-2 shows the distribution of the concessions of the plantations in Papua.

²² Fransina F Kesaulija and Bernadetta MGS, *Oil Palm Estate Development and Its Impacts on Forests and Local Communities in West Papua: A Case Study on the Prafi Plain* (Bogor, Indonesia: CIFOR, 2014), p. 1.

Figure 2-2. Distribution of Oil Palm Plantation in Papua

Source: Sawit Watch, personal correspondence with Sawit Watch NGO in 2018.

After depleting forests in Sumatera and Kalimantan, the palm oil industry's investment boosts in Papua, including Merauke, with the help of government programs in reducing poverty, which is considered "planned" deforestation and legal. Since 2014, at least 200 square kilometers of forest in Merauke District has been cut down for plantation.²³ In the neighboring Boven Digoel district of Merauke, nearly 37 square kilometers of the primeval forest have been cut down for the industry.²⁴

Another mega project of the Indonesian government besides the expansion of palm oil is known as Merauke Integrated Food and Energy Estate (MIFEE), which has been conceived as an entry point of massive plantations to the land of Merauke. On August 11, 2010, the Indonesian Minister of Agriculture officially launched Merauke Integrated Food and Energy Estate (MIFEE), the 1.28 million area megaproject to accelerate and expand Indonesia's economic development. In 2014, the permit granted for palm oil. The area allocated also includes primeval and protected forests, surrounding areas, and indigenous lands. The property occupies

²³ Mikaela Weisse and Katie Lyons, "Places to Watch: Five Forests at Risk This Month," *Global Forest Watch Blog*, December 13, 2017, accessed February, 2, 2020, <https://blog.globalforestwatch.org/places-to-watch/places-to-watch-december-2017>.

²⁴ K. G. Austin et al., "Shifting Patterns of Oil Palm Driven Deforestation in Indonesia and Implications for Zero-Deforestation Commitments," *Land Use Policy* 69 (December 1, 2017): 41–48, <https://doi.org/10.1016/j.landusepol.2017.08.036>, pp. 41-43.

approximately 2.5 million hectares and occupies land belonging to 160 villages in Merauke. This MIFEE project involved a variety of foreign investors. At least 36 investors have secured concession permits from Indonesian, Japan, Korea, Singapore, and Middle East. The primary raw materials produced under MIFEE are wood, palm oil, corn, soybeans, and sugar cane.²⁵ Among the investors in West Papua is the USD 900 million projects led by the German company: Ferrostaal AG.²⁶

2.2. Qualitative Empirical Research

2.2.1. Research Methodology

This research is qualitative and obtains the data with semi-structured interviews. It is suggested that interview research can 'give voice to marginalized people and silenced lives.'²⁷ Interviewing has provided the researcher with a deeper understanding of the issues, structures, processes, and policies that involve participants' stories. Most importantly, interviews enable researchers to respect participants, appreciate their understanding, and enjoy sharing their stories.²⁸

The methodology of this research will include interviews, participant observation, and theoretical literature analysis to avoid personalistic biases and find a holistic analysis and solution at the end of the study.

The research draws on both primary and secondary data. Primary data were collected through interviews and field observation. Secondary data include official information from the government, public documents on palm oil plantations, companies, and other statistical data relevant to the research.

For the research, the participants were divided into four groups, based on their involvement in the palm oil industry: (i) local community and customary

²⁵ EJOLT, "Merauke Integrated Food and Energy Estate (MIFEE), Papua, Indonesia," *Environmental Justice Atlas Blog*, accessed December 2, 2020, <https://ejatlas.org/conflict/mifee>.

²⁶ Francesca Restifo, Budi Tjahjono, and Silvia Palomba, *Human Rights in Papua 2010-2011* (Hongkong: Asian Human Rights Commission, November 2011), p. 37.

²⁷ Pranee Liamputtong, *Researching the Vulnerable: A Guide to Sensitive Research Methods* (London: SAGE, 2007), p. 113.

²⁸ Irving Seidman, *Interviewing as Qualitative Research: A Guide for Researchers in Education and the Social Sciences*, 3rd ed. (New York: Teachers College Press, 2006), p. 130.

landowners, who also work in the palm oil company (ii) government (iii) church workers (iv) NGOs activists.

Interviewees from the community were selected from the clans whose customary lands had been converted into oil palm plantations. They reside in Baidub Village. There were also two transmigrants as the respondent.

To obtain further information, I conducted interviews with church workers in both protestant and catholic churches. In addition, the governments and the NGO activists will be interviewed as well. The research was conducted from 8th to April 23, 2019, in Papua, Indonesia.

There were some steps to be taken during the interview process as an ethical consideration to get consent from the interviewees. In Baidub, the first necessary step was to meet the Indigenous People Institution Leader (Lembaga Masyarakat Adat) and the congregational pastor to explain the purpose and objectives of the research. After they had understood and accepted, the pastor explained and asked the local people and landowners for their willingness to engage in the research.

After they had agreed to participate, I explained the purpose of the interview in detail and reached their agreement by signing the consent paper. Because of the sensitiveness of this case, the interviewees can choose anonymity, and one respondent prefers to have a fictitious name. This approach is also a requirement for other interviews besides landowners. As well as other interviewees in Merauke and Sorong.

Research Site: Baidub, Ulilin District, Merauke Regency in the Province of Papua

Merauke Regency is among 29 districts in Papua located in the south-eastern part of the Papua province in Indonesia and is intended by the Indonesian government to become the capital of the proposed South Papua province. This region is characterized by dense forest, swampland, and savanna. The Wasur National Park, which forms part of the largest wetland in Papua, can be found in Merauke. Papua is home to the third-largest rainforest in the world after the Amazon forest and the Congo Basin. No wonder that this region turns to be an easy target for massive palm oil expansion due to its vast amount of forest.

The Ulilin District is one of the districts in the north of Merauke Regency, which is directly adjacent to Boven Digoel Regency in the north, Elikobel District in the south, Muting District in the west, and Papua New Guinea in the east.²⁹ Ulilin District has 11 villages and Baidub is one of the villages. The 2016 census put the total of Ulilin District at 4.604 people, and in Baidub Village live 253 people on 45,88km² land.³⁰

Baidub people inhabit the Ulilin district of Merauke regency. This community, long recognized as being subject to customary rights, consists of nine clans, known as marga. Each marga is under the authority of a clan leader, and all clan leaders are under the authority of Indigenous Peoples' Tribal Council (Lembaga Masyarakat Adat) leader. This community planted subsistence crops, seeking agarwood and hunting animals in the forest. Agarwood (Ind: *gaharu*) is obtained from natural forests as raw materials for perfume and medicine.

2.2.2. Brief Field Observation

Baidub village is located in Elikobel, Merauke Regency, Papua province, Indonesia. This village is not far from the Trans-Papua road, connecting Merauke Regency with Boven Digoel. With an off-road car from the city of Merauke, Baidub can be reached around four to six hours. We can find many military checkpoints along the road because the region is close to the Papua New Guinea border.

I saw a bare forest and 1 to 1.5 m high young palm oil trees that had just grown on my way to Baidub, where I conducted my first research in Papua. My second research took place in Sorong in the West Papua province, where I interviewed two NGO activists from Green Peace and Belantara Papua. The palm oil trees are even reaching the road. Here and there, there was muddy ground and pieces of logs that had not yet been transported. Some bulldozers and other heavy equipment were still busy operating in the distance. Our driver said, "The forest there is still not finished

²⁹ Papua BPS Merauke Regency, "Ulilik District in Figures 2019," Badan Pusat Statistik Kabupaten Merauke, 2020, <https://meraukekab.bps.go.id/publication/2019/10/08/b55f9fb22668daca99e60845/kecamatan-ulilin-dalam-angka-2019.html>.

³⁰ Papua BPS Merauke Regency, "Merauke Regency in Figures 2020," Badan Pusat Statistik Kabupaten Merauke, 2020, <https://meraukekab.bps.go.id/publication/2020/04/27/733a3de70bb303ff4b7162f1/kabupaten-merauke-dalam-angka-2020.html>.

to be cut down. It is for the plasma," as he pointed to the distance. It turned out that logging had not stopped. The trees are standing tall and very dense. Along the way, we saw many placards with big colorful letters stating a message of prohibiting the burning of trees but not prohibiting the cutting down of trees by the forestry department. Some of them are still standing in the middle of vacant land. The forest is only marked with a written sign in some areas: 'sacred ground,' where the trees are still standing.

Figure 2-3. The Map of Papua



Source: Maps of World, "The Map of Papua, 2020"
<https://www.mapsofworld.com/indonesia/maps/papua-map.jpg>

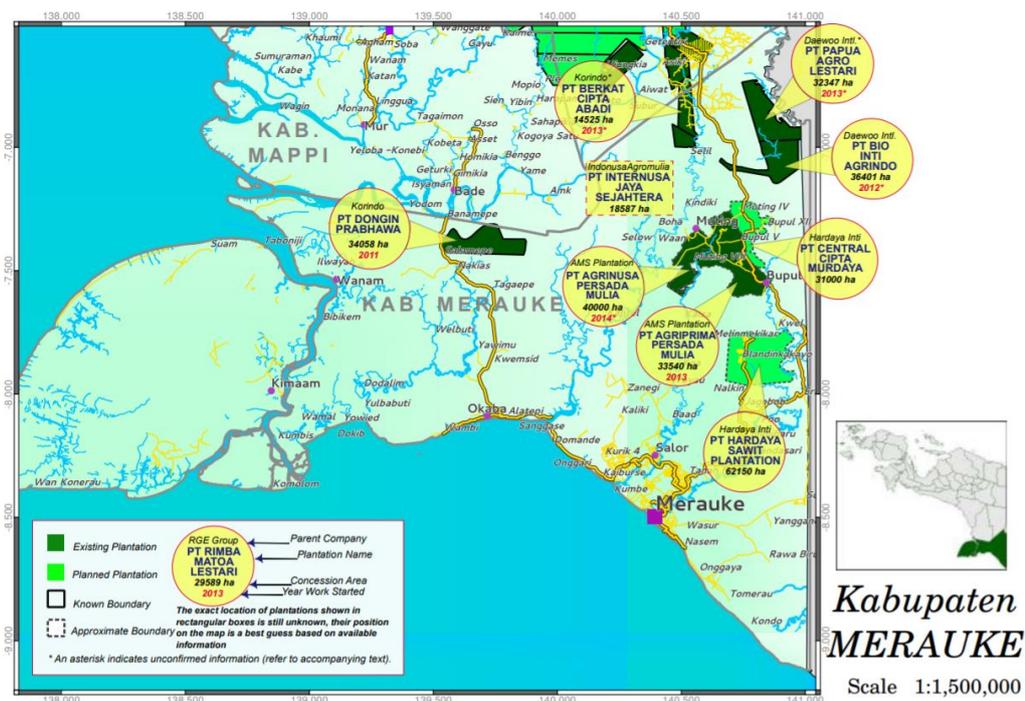
Indigenous people in Baidub belong to Yei, a sub-ethnic group of the Marind, occupying Papua's south-eastern coastal area.³¹ The indigenous people are dependant on the forest to meet their needs.

³¹ Joshua Project, "Marind, Southeast Marind in Indonesia," *Joshua Project Blog*, 2020, accessed February 2, 2020, https://joshuaproject.net/people_groups/13544/ID.

From Merauke, I headed off to Baidub to do my interview with the people of Yei, whose lands have been acquired by the company Internusa Jaya Sejahtera to turn into palm oil. The companies which operate in this region are Agrinusa Persada Mulia (APM) and Internusa Jaya Sejahtera (IJS). According to Yayasan Pusaka, Internusa Jaya Sejahtera obtained a site license to plant 18,587 hectares of oil palm in Merauke in 2013. This company is reported to have already distributed money to local people, on average some five million IDR per person, and this has caused the conflict to break out within and between landowning clans. Compared with other companies, Internusa Jaya Sejahtera is a small company with a significant expansion plan.³²

Figure 2-4 shows the palm oil companies which are operated in the district of Merauke.

Figure 2-4. The Palm Oil Companies in the District of Merauke



Source: Data from Y.L Franky and Selwyn Morgan, *Papua Oil Palm Atlas: The Companies behind the Plantation Explosion*, 1st ed. (Jakarta, Indonesia: Yayasan Pusaka, 2015), 41.

³² Mighty Earth, *Mighty Earth Rapid Response Report 11* (Washington DC: Mighty Earth, 2018), accessed February 2, 2020, <https://www.mightyearth.org/wp-content/uploads/Rapid-Response-Report-11-copy.pdf>.

I arrived in the evening after a bumpy and muddy long road journey at the pastor's house at Baidub, where I will stay during my research. This house is the safest place to stay because, according to some people I encountered in Merauke and the pastor himself, palm oil is an unsettling and dangerous issue in Merauke. It also includes the car that I rented, I should first discuss it with an NGO friend in Merauke because, according to them many spies from companies work as drivers of rental cars, which can be dangerous for activists or researchers who want to research palm oil in Papua.

The pastor lives in a very simple wooden house next to the church. Right in front of the house is a midwife or nurse's official residence and a simple village hospital or, in the Indonesian language, called "puskesmas." Next to the house, about ten-minute walk, is an elementary school building that is permanent and new.

To my surprise, this village where the pastor stays is like an abandoned village. The houses are newly built and semi-permanent, but nobody stays in the houses.

He accompanied me to do my first interview in a barrack, which can be reached in fifteen minutes by car and thirty minutes by foot afterward due to the muddy road. It was difficult to walk fast because the mud was very thick. It was raining at that time. This barrack is the closest one that can be reached from the village. There are nine barracks in total.

The situation that I saw when I arrived at the barrack greatly surprised me. There are very simple wooden houses and muddy roads. We can hardly find any plants or flowers. I saw several young men crouching in front of the door. In the middle of the barracks, there is a field with a flagpole. At the end of the barracks, I saw orange water tanks. I do not see any cars here. None of the houses has televisions and furniture. The people just sit on plastic mats. I could see the kitchen, and they cook with firewood without stoves.

2.2.3. Analysis of the Interviews

The Indonesian government used the right to development statement to justify large-scale land-use conversion to massive palm oil proliferation to promote poverty reduction and job creation. This right to development is a universal right of individuals as defined by UN Resolution No. 41/128. All people have the right to participate in, promote and enjoy economic, social, cultural, and political

development, in which all human rights and fundamental freedoms are available. Fully realized, and the human being is at the center of development.³³

Rural communities living in the expansion of palm oil plantations stand to gain from production, employment, and trade opportunities, yet they face negative externalities, including environmental, cultural, socio-economical, and land tenure risks. However, while most studies use data from palm oil plantations in Sumatra and Kalimantan, many findings do not show whether the patterns and impacts of palm oil can be found in new expansion regions such as Papua. Hopefully, reviewing the results from research in Merauke District will bring a deep analysis of the impacts of palm oil on the local people in Baidub Village on their economy and social and their cultural life and the environment.

In this part, I will present the analysis of the interviews. The first group will be the community, the second group will be church workers, the third group will be NGO activists, and the last group will be government.

2.2.3.1. Analysis of the Interview with the Community of Baidub

The purpose of the interview with the community is to listen directly to the people's experience regarding their socio-economic life, perceptions of the palm oil industry, and expectation from the government and church. To get their opinion, hope, and feeling, I interviewed twelve local people in Baidub village, consisting of ten men and two women. For getting involved in their life, some interviews were conducted in their barracks. To give the interviewees enough space to express their views, I used a model of semi-structured questions. The interviewees were custom landowners (indigenous people) whose land had been turned over to palm oil plantation and two transmigrants (non-native people). Eleven of the interviewees are active members of the GKI Tanah Papua, while one of the transmigrants is Muslim.

Three of the interviewees were below 30 years old, seven people were between 30-48, and two were older than 50. In terms of education, 10 were primary school (SD)

³³ Legal UN, "Declaration on the Right to Development," *Legal UN Blog*, December 4, 1986, <https://legal.un.org/avl/ha/drd/drd.html>.

graduates, 1 passed junior high school (SMP), one graduated from senior high school (SMA), who is the transmigrant, and works as an agarwood collector. Most of the interviewees work as plantation labor, five of them are mandors, and two interviewees cannot work on the plantation anymore due to their age.

Palm Oil Transforms the Life of the People

One participant, a Yei woman from Baidub village in Merauke, Papua, looks older than her age in her barrack, conveyed her feeling about her land. "Now our forest has been destroyed. Forest for us is like a mother who breastfeeds her children. If there is no mother, where do the children eat?" The community of Baidub, around 200 Yei households, like many other indigenous communities in Papua, depends on their life from the forest. Yei is part of the Marind community who see forest constitutes an "ecology of selves" in which selfhood is extended to plants and animals.³⁴ In contrast to palm oil, who knows no family or friends, because they do not allow other plants or animals to live together surround them. Forest and people participate in each other's existence as members of a shared community of life.

During the land transfer process, most of the interviewees reported being forced, both by the company and their clan leader. It was in 2002 when Internusa Jaya Sejahtera started to enter their forest before they had a meeting in the village. The process from the agreement until the opening of the palm oil plantation was only six months, by cutting down all the trees. "There was military present at that time," CM shared his experience. Besides the coercion from the company, there was also coercion from their people, the former Tribal Council leader. Many times, the leader also as a spokesperson was given duty by the company to persuade others to sell their land. "So, you keep your land and forest to keep and hide the people of the Free Papua Movement (*Operasi Papua Merdeka*), don't you? That is what he told us. In the end, everyone who heard that become frightened and released their forest," AB said.

³⁴ Sophie Chao, "In the Shadow of the Palm: Dispersed Ontologies among Marind, West Papua," *Cultural Anthropology* 33 (November 12, 2018): 621–49, <https://doi.org/10.14506/ca33.4.08>, p. 625.

The land that has been released was owned by the clans, but the decision-maker is the eldest of the clan. The other members cannot raise their disagreement. In other words, one person cannot fight with many. That is the reason why MD said, "Yes, I agree, what else can I do?"

Even though one of the interviewees said in contrary, there was no coercion from the company, proven by eight-time socialization and meetings held between the company and the community. With the presence of palm oil plantations on their land, this shared community is fragmented. Apart from their separate lives from nature, oil palm also influences their cultural and social life. Yei people in Baidub have to transform their life from gatherer, hunter, and agarwood seeker to become plantation laborers. As plantation laborers, they are required to live in barracks, leaving their homes in the village. Their cultural life is eroded.

Community's Perception of the Palm Oil Industry

The community of Baidub, geographically located around palm oil plantations, whose lives are directly impacted, raised numerous perspectives about the concession of their land into the palm oil industry. Of twelve interviewees, three find negative impacts of the palm oil industry and demand to stop, and nine interviewees agree that the palm oil industry benefits their lives.

CD, who is agree with the coming of this industry, said, "Now our life is more calm and secure. We used to have money before, but our income was uncertain. Now we can get monthly wages, and we can send our children to school." His statement was similar to the female participants PI and HE and his brother MD. "Before palm oil came, we lived our life half-dead, we pursued our income from the forest. To seek agarwood, we left our family and stayed in the forest for months. We always worried about our family, and many times we endangered dangerous situations. The profit we get from selling the agarwood is not adequate for the risks. Now our life is better and financially increased," he said. Their life is guaranteed by monthly wages and a monthly ration of rice provided by the company. The economic matter is one of the positive benefits acknowledged by the interviewees.

In addition, they claimed that the palm oil industry brings modernization, infrastructure and technology to them. The people used to carry things to sell on their shoulders until the main road before the asphalt road was built in 2016, which

is approximately one hour by car. In 2016 the electricity was installed in their village, and in 2018, they could use cellphones. If the company did not come, they admitted that their children will never see car.

In the initial process, the company often persuaded the landowners to sell their land and set out promises, including job availability, which in reality, has been limited to unskilled laborers. The young people work as laborers since they graduated from elementary school. However, graduates do not exist in Baidub since there is only one elementary school in this region. For the future generation is a hope acknowledged by the interviewees regarding this industry.

The participants who disagree argued that palm oil will not guarantee the future life of the people. Most laborers will be retired with 50 and without pension funds. The monthly wages are only enough for daily necessities. They have no savings, nor health insurance. Moreover, with the degradation of the forest, working as an agarwood seeker seems impossible, and no more land to be planted with crops. High expectations regarding the land purchased do not match the reality. Adding extra money besides the monthly salary is also not possible. They admitted that they struggle to manage and save money. AB preferred his previous life, which is calmer, comfortable, and secure. The participants concluded that the one who benefits most from palm oil is not the people but the corporation. For a better life slogan is not true. Therefore, they demand to stop and close the palm oil plantation before the other negative impacts felt by the people.

Injustices felt by the community: Unfair Practices in Land Transfer

Papua, the land of paradise yet full of heart-breaking stories about people suffering. It ranges from the story of mining that destroys indigenous communities in Papua to palm oil plantations that exploit the people's land and forests. One injustice that is felt by the community regarding the land transfer is the lack of transparency about the size of land and the payment. As in other regions, the land that belongs to Baidub people is defined by custom rather than by statutory law. "When the company came, we had no idea how many hectares of land we had and forgot how many hectares we had released to the company. We have no exact measurement. We measure our forest from one tree to another. Indeed, we took part

in measuring the land, but the information about the size of our land is in the company's hands, and they did not tell us," CM raised his complaint. His statement is in line with AB. "I remember that time, the company brought something they called Global Positioning System or *GPS*, and told us the position of our land and we agree. In our mind, it was only to the exact boundary that they will take, but we cannot measure it, and it is further taken by the company than what we have been calculated before." Absalom laughed bitter as he continued, "They are smart people fooled us stupid ones. They use GPS. How do we want to calculate GPS? We have no idea about it. Even 5x5, we do not know."

Land acquisition deals in exchange for nonsensical compensation. As reported by CD, by releasing 20.000 hectares of land, his clan received payment of around 374 million IDR (24,949 euro) for 30 years land-use permit. Based on field observations, the price of customary land in the urban areas of Merauke reaches 1 million IDR (59 Euro) per square meter. However, in remote areas, the price is only 1000- IDR (5 Cents).³⁵ According to him, the price is too small compared to the land being handed over. Another interviewee even admitted that he never obtained any money from the land transfer.

Besides the land payment, the community also faces injustice in terms of logging payment. In Baidub, like in other places, the palm oil plantation often serves as the cover for logging practices. Many investors get a very high profit from deforestation by selling wood. According to the interviewee, the profit of selling timbers was not fairly distributed to the community, while other participant admitted that they did not receive any wood compensation. The landowners also lack information about the type and the number of timbers on their land.

According to AB, the thousand hectares of forest in Baidub was so dense. It is genuinely a countless profit received by the investors from the selling of the enormous logs, yet the profit was not fairly distributed to the community. That is why after a long reflection, CD said, "That means our own money that they use to

³⁵ Kompas Cyber Media, "Setop Jual Tanah Ulayat (Stop selling the indigenous people's land)," Kompas, April 4, 2011, <https://tekno.kompas.com/read/2011/04/28/03402895/setop.jual.tanah.ulayat>.

pay us." The community does not seem aware of what they lose. They have lost their forest with billion rupiahs cost of timbers. AB, in the end, said, "Here happened massive exploitation in Baidub, not only forest and land exploitation but also people exploitation."

Another injustice is the unclear agreement process. There is no written agreement handed to the people. They have no clear statement about the measure of the land being acquired and how much money they accepted as compensation. As a result, the community will not have any legal power to sue or demand their rights. They have no clear information about the owner of the company and the risks if one day the company is sold or transferred. SU commented on the company's practice as follows, "We gave them our land and forest, now they take our homes and energy also. We have been tricked."

Injustices around the Work as Laborers

The first injustice of the people who work as laborers in the palm oil plantation is in terms of salary and working hours. By working in the company, they get monthly wages and rations of rice. A foreman gets around IDR 4 million (235 Euro), and a plantation laborer earns IDR 2 million (118 Euro). With this salary, they admit that they can finance their daily needs and their children's education and save IDR 500,000 (29 Euro) in their bank account monthly. According to PI, who works as a fertilizer sprayer, she works 20 days in a month and 7 hours per day.

Once a year, they accept *Ramadhan* allowance, even though they celebrate Christmas. Another disappointment for PI is that the company preventing the people from worshipping in the church, because on Sunday, instead of a day of rest, she is forced to work. Different from the foreman, who has no definite working hours.

There is also lack of working security. The works on plantations encounter many risks, mainly in Papua, due to wild animals and poisoning snakes. The participants, especially women who work as fertilizer sprayers inform of inadequate security equipment like masks or helmets, have lung problems due to the chemical. They do not get the rights and the protection that laborers would demand. The work in palm oil plantations is physically demanding, the hours are long, and they are poorly paid.

Moreover, the plantation laborers do not have a bargaining position. They are put in a low position and do not have any option. The laborers residing in isolated areas, far from the social and economic center without entertainment, far away from their previous village and houses. Companies settle barracks for laborers in the middle of plantations isolated from the outside world as part of their strategy to complete control over their laborers. Usually, families from the same clan live in each barrack, and the foreman designated by the company is the head of the clan and the landowner. CM informed that Internusa Jaya Sejahtera operates with ten barracks. In one barrack lives around 40-60 family members. In the barrack they get free electricity and water. According to the interviewees, their decision to leave their houses in the village and settle in the barrack is the transportation and working hour.

Two barracks which are located nearest to the village are circa 10 km distance. Every morning at 5 am, the laborers must line up for the morning parade and start working at 6 am. The company does not fulfill its promises in providing transportation for the children to go to school in the village. As complained by AD, "The service of the company is lacking. The car is never provided for Sunday worship, also to take and pick up our children to school. Our children have to go every day by foot." There is only one primary school in Baidub. The children have to walk longer, or they do not attend school at all. Apart from saying better education or empowering himself, one young participant requested volleyball and a net for leisure. There seems no other choice left for him. He said, "Where else can we go? We are already here."

The poor living condition in the barrack is another issue. The building is far from adequate, and people lack entertainment. There is no television and other leisure activities. The people leave their houses, which built by the government in 2017 with the village funds. The divisive practice weakens the people as a community.

Plasma Plantation

The expectation of the plasma scheme has become another reason for the Indonesian government to support palm oil investment in Baidub. Plasma scheme is a partnership scheme between the company and local Papuans, aiming to advance the local economy, transform their livelihoods, and bring welfare to the people. Nevertheless, in reality, this scheme is not problem-free in Baidub, as in many other

areas. All the interviewees acknowledged unclear information on when the plasma will be submitted and the location and size of plasma given to each family.

The Rope of Compassion (Ind: *Tali Kasih* or *Tali Asih*) is a mere Promise.

Another resentment shared by all the participants is the unfulfilled of *Tali Kasih*. "We are bored with promises. Promises to build us schools, hospital, giving our children scholarships. Since 2012 we see no realization from the company." *Tali Kasih* in English means the rope of love or compassion, the provision of assistance to strengthen the brotherhood. However, according to the law, the granting of compassion is not justified. *Tali kasih* acknowledge by the interviewees was submitted by the company in the initial process before the release of the land by the community. There is no drafted agreement regarding *tali kasih* between company and community, only a spoken.

Perception of the Company

There is not much information regarding the company told by the interviewees. All of the interviewees know the company's name, but they have no clear information about further data. There is much speculation about the owner. BT comes up, while GP states that the actual owner is the Police-General (Ret.) MTK who was the former Chief of the Indonesian National Police and is the currently appointed Minister of Home Affairs of the Republic of Indonesia, which is also different from the news in media. (in my opinion, this statement shows his bravery because it is dangerous to state information concerning military agent). AD innocently stated, "We do not know who buys our land, who sells, who signs, we do not know." How is it possible that the community does not have correct information about the company and who has taken their land?

Another perception of the company, according to the interviewees, is that the company is decisive. They are intelligent people who fooled the people. They force, deceive, and taking the people's property completely.

Perception of the Government

Some interviewees viewed the government as a responsible actor who has done many things for the community by giving them houses, rice, and free education to

the children. Other participants accused the government of being in conspiracy with the company to defraud the community. The government and the company fooled the people of Baidub. The government, especially the forest department judged by the community as a corruptor.

The interviewees admitted that through the whole process, there was no accompaniment from the government. The agreement was only between the company and the community. The participants acknowledged that their education made them lose, and no one knows who is willing to protect them. Finally, the protection of human rights is hardly ensured here. The people lose their trust in the government, the police, and the army.

Perception of the Church

The community knows well that the church faces a big challenge. However, they admitted that the church always walks by their side. They still trust the church and honor their pastor. "Our Pastor has helped us a lot. He gave us a lot of opinions and ideas. He has helped us also with our education. Even some of the children go to school outside Merauke, to Jogjakarta and Bandung. He opens the ways to us," PA said gratefully. There are more than 20 children have been assisted by the pastor for further education.

During the interview, afraid of being fired, one participant requested the church to submit her complaint regarding the working schedule to the company; she said: "Please tell the company to permit us so we can go to church. Sunday is important for us to rest." Her request is an appeal to the church to bring their voice to the company.

Conclusion

From the community's interview analysis, I would like to pick out and emphasize some summaries. First and foremost, we should understand that the community in Baidub was living for years in a very remote area. This remoteness causes the community to lack information. Some of their opinions are that palm oil brings welfare to them, their economic life is better than before, including inadequate information about their legal rights.

They do not understand essential things regarding the palm oil industry in their area. In their social life, they are accustomed to following what their leaders say. They have no right to convey their opinion. Therefore, corporations and government are responsible for having a dialogue with the community to give them clear information regarding the process of the palm oil industry in their areas.

Oil palm has displaced large areas of agarwood and sago trees. There is no more sago, and the people are forced to consume rice and instant noodles, which is not their everyday food. Most of the forest area has been cleared for palm oil plantations, and outsiders may regard it as "degraded" and therefore has no value. However, the people depend on these forests for subsistence, cash income, and cultural and religious practices. Palm oil has come at a considerable cost to forests and people who rely on them. The nature of the community is gatherer, who live like birds, their way of living is not stable.

In the palm oil plantation, the previous activities are not in line with the regular work schedule of palm oil workers. They also have no culture of saving because everything is always available to be collected from nature. They dreamed of a better life in the future, especially in economic life, and they relied on this palm oil. The words hope, gratitude, and dream always come up during the interviews. Palm oil brings hope for the community for a better life in terms of the economy. The rationality of the people in the decision-making process is far from a long reflection decision, which in the future can raise conflicts among their internal clans and with the company. Therefore, among many critical issues for the palm oil industry, most agree on the importance of good planning, management, transparency, and accountability. Their lives and the lives of future generations depend only on palm oil.

The palm oil industry has displaced the community out of their land, prevented them from practicing their subsistence farming, hunting, and agarwood gathering, and forced people to adapt to nutritional needs. They face the threat of hunger. Can palm oil bring economic prosperity when the entire production processes eliminate cropland, the source of communities` daily needs? Can it bring a better economy by providing job opportunities when it displaces communities` productive land? Palm companies seize communities` land – their sources of livelihood – and create more landless people. The people face a dilemma in fulfilling their economy,

between securing their livelihoods in the changing natural environment and lack of ability and capacity to take full advantage of the palm oil benefits for their economic life. From a gatherer community, they are forced to become palm oil plantation workers.

One of the government's objectives for this palm oil expansion is to reduce poverty and increase the community's welfare. In reviewing the current labor arrangements and wages levels, further research needs to analyze the improvement of livelihoods of laborers in the palm oil industry in Papua. Studies of soil changes indicate that nutrient levels increased in the early stages of cultivation, perhaps because of fertilizers and leguminous cover crops.³⁶

Regardless of Papua's commitment to development, some observations show that many schools in rural areas are not currently running according to stated aims. There is no junior high school and kindergarten in this village. To continue to junior high school, the children have to leave the village to the city, putting a financial burden on their parents. They have to walk for 10 km to school, and there are high dropouts among the children. Illiteracy in Papua is reported as 40 percent of the population of Papua province.³⁷ Education is an essential factor for the children in Papua, and all parties should ensure a good education.

2.2.3.2. Analysis of the Interview with the Church Workers

To get a picture of how the church workers perceive the palm oil existence and what services the churches do amid this palm oil industry, I interviewed four church workers, three protestant pastors from the Evangelical Christian Church in Papua (Gereja Kristen Injili di Tanah Papua), and one catholic pastor. Two of the three interviewees from the protestant church are working in the classis office GKI TP in Merauke. HL works as the head of the classis and TH as the secretary. Another protestant pastor, GP, works as a congregational pastor in Baidub. Three of them are bachelor's degrees in theology. The interviewee from the catholic church, AA,

³⁶ Douglas Sheil et al., *The Impacts and Opportunities of Oil Palm in Southeast Asia: What Do We Know and What Do We Need to Know?* (Jakarta: CIFOR, 2009), p. 35.

³⁷ UnicefIndonesia, "UNICEF Indonesia: Learning to Read, Write and Succeed: UNICEF's Literacy Work in Papua," *UNICEF Indonesia Blog*, January 15, 2016, accessed February, 24, 2020, <https://unicefindonesia.blogspot.com/2016/01/learning-to-read-write-and-succeed.html>.

is the director of Secretariat for Justice and Peace of Merauke archdiocese (SKP KAME) Merauke and held a master's degree in socio-politic.

Followed is brief information about the two churches. Gereja Kristen Injili di Tanah Papua (later written GKI TP) is a Presbyterian-Synodal church,³⁸ based its service on the bible verse Ephesians 5:8: "for once you were darkness, but now you are light in the Lord; walk as children of light." GKI TP has around 600,000 members, with 1,148 congregations served by 498 pastors. There are four main programs of the church: 1) public services in human rights, 2) theology, evangelism, and mission; 3) education, from elementary to tertiary levels; and 4) awareness building for financial self-reliance. Through the `Papua as Land of Peace` campaign, the church is committed to resolving community conflicts and supporting the people through social projects that focus on education, health, and the advancement of women. The churches in Papua still receive high trust from their congregations. The church has its theological seminary in Jayapura, namely the Isaac Samuel Kijne Theological College (*Sekolah Tinggi Theology Kijne*).³⁹

Secretariat for Justice and Peace of Merauke`s archdiocese (*Sekretariat Keadilan dan Perdamaian Keuskupan Agung Merauke*, later written SKP KAME) is one unit in the Catholic church which is advocating the rights of the people in Merauke, especially the indigenous people. In 90,000 square kilometers, the diocesan area comprises three districts: Merauke, Mappi, and Boven Digoel.⁴⁰

Perception of the Palm Oil Industry: Not to stop palm oil but stop human rights violation

Palm Oil in Indonesia has been through a long journey until its end destination: Papua. It has economic value that has driven the economy in various regions in Indonesia. However, oil palm expansion also leaves trauma, suffering, and conflict.

³⁸ World Council of Churches, "Evangelical Christian Church in Tanah Papua," World Council of Churches, accessed February 24, 2020, <https://www.oikoumene.org/member-churches/evangelical-christian-church-in-tanah-papua>.

³⁹ Mathias Waldmeyer, "Indonesia - Evangelical Christian Church (GKI)" *Mission 21 Blog*, accessed February 24, 2020, <https://www.mission-21.org/en/what-we-do/projectsandpartners/partners/gki-evangelical-christian-church-in-the-land-of-papua>.

⁴⁰ William. J Grimm, "Merauke Archdiocese Indonesia," UCANews, 2020, accessed February 24, 2020, <https://www.ucanews.com/directory/dioceses/indonesia-merauke/275>.

In this interview, church workers present the church's perspective in this palm oil expansion from the Protestant church and Catholics.

"I agree that with palm oil, communities can make a living, support their families, and send their children to school," agreed HL. For her, the economy is the main reason for welcoming this industry. In contrast to her, the pastor who works in the congregation admits that palm oil does not bring economic welfare to the people. According to GP, before the palm oil industry came to Baidub, the people could earn more, as the agarwood seeker. Therefore he recommended, "The palm oil company has to be closed. It is more secure. The issue here is not only human rights issue but also forest violation and land grabbing."

GP has lived together with the affected community for three years and witnessed the complexity of the situation faced by the people. Accompanying the people directly affected by this plantation and hearing their complaints, and seeing their sufferings, can be understood as his desire to close the oil palm.

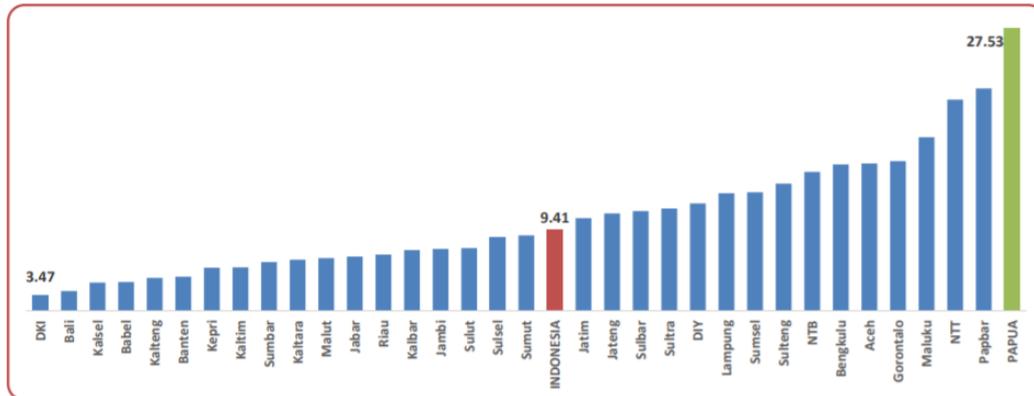
Palm oil has destroyed people's traditional values and income. Not to mention the economic benefits taken by the population in the forest area from the biodiversity, such as forest honey, rattan, sago, aloes, and various medicinal plants in the forest. Forest is for the people considered sacred.

AA started the interview by sharing his experiences before palm oil came to Papua. "When I see this palm oil journey, from Sumatera moves to Kalimantan and arrives now in Papua. I am aware now, we are just at the beginning of the development of oil palm plantations." For decades, the Papuan people experienced exploitation of the region's riches, with a small amount of the wealth being given and invested back for the community's welfare. Papua and West Papua, among other provinces in Indonesia, have the highest poverty levels⁴¹ and score lowest on human

⁴¹ BPS Papua Province, "Poverty in Papua Province, March 2019," July 15, 2019, <https://papua.bps.go.id/pressrelease/2019/07/15/417/profil-kemiskinan-di-provinsi-papua--maret-2019.html>.

development parameters such as education, literacy, and maternal and infant mortality.⁴²

Figure 2-5. Percentage of Poor Population by Province



Source: BPS Papua Province, "Poverty in Papua Province, March 2019."

Figure 2-5 shows the percentage of poor people by provinces in Indonesia in March 2019, and it can be seen that Papua is the region with the most significant rate of poor people, namely 27.53 percent, which has increased in the last six months by 0.10 points. The commitment of the government to improve the welfare of Papua needs to be criticized and evaluated.

Besides deforestation and land grabbing, another injustice reported by the interviewees can be found around some issues: First, the compensation of the land violates the people's rights. According to their permit, the company named it land compensating or compassion price, not land purchasing, because they borrow the land for 30-35 years.

"I heard that one hectare of the land valued and traded for 50,000 rupiahs (3,20 Euro). Moreover, they get a small compensation for the woods," HL informed. For a price comparison, the company that pays for the wood pays around 50 Euro per cubic meter of Merbau wood, while in the global market, the price can reach up to

⁴² BPS Indonesia, "Human Development Index by Province, 2010-2019," Statistics Indonesia, 2019, <https://www.bps.go.id/dynamictable/2020/02/18/1772/indeks-pembangunan-manusia-menurut-provinsi-metode-baru-2010-2019.html>.

1,300 Euro per cubic meter.⁴³ GP added that the community signed their signatures only on a blank paper. There is nothing written on paper about the release and the information about the land transfer.

The Cultivation Rights Title (Ind. *Hak Guna Usaha* or HGU) has always been debated in this industry. The Cultivation Rights Title is usually valid for 30 years, but the corporation can extend it to 70 years. One example from the participant is a company named Rajawali that has a permit until 120 years. This permit issue often becomes a source of conflicts, argued HL. Many companies traded the "borrowed" land to another company without informing the community, which caused land conflict.

The job opportunities brought along by this industry seem far from reality, TS said. He admitted that in the beginning, the company hired the local people. However, after one year or two, they start to fire them and bring other laborers outside Merauke. The local people cannot compete with employees from outside Papua. HL commented this firing system as the right of the company

Therefore, according to AA, the benefit of palm oil to local people is pseudo. The company admits that palm oil offers a guaranteed life by working as labor in the company. Nevertheless, instead of living a pleasant life, there was much pressure on the community living in the middle of the palm oil industry. Comparing to the advertising by the state, it is understandable that palm oil is the source of the national income. But many critics towards the Indonesian government around human rights have to be taken seriously, argued AA. Therefore, he said: "Not to stop palm oil, but stop human rights violation. If palm oil in the future can be driven down a more socially sustainable path, it may hold significant potential to support development. We will support."

Perception of the Government: Their biggest concern is the economy

"Indonesian government's main concern is the economy," is the perception of the interviewees of the government. The state strongly supports palm oil for the

⁴³ Bagja Hidayat and Agung Wijaya, "Legal Timber's Loophole," *Tempo English*, December 24, 2008, <https://magz.tempco.co/read/35100/legal-timbers-loophole>, pp. 13-24.

economy as a critical source of income for millions of people and farmers. The Indonesian government often uses rural development to justify large-scale land-use conversion to palm oil, which is promoted as a key feature of poverty alleviation and sustainable economic growth. To invite investors, one of the government's strategies takes place in Merauke through the Merauke Integrated Food and Energy Estate Project (MIFEE). For this food and energy project, the government has issued 171 mining permits and 114 palm oil plantations and other permits with 14.853.646,60 hectares equal to 34,77% of the total land area of Papua. The government attracts many investors to invest their capital in Merauke. According to AA's description, there are several stages of the development of land clearing in Merauke. The first stage was the transmigration program in the 1980s, and the current stage is the Merauke Integrated Food and Energy Estate Project (MIFEE). This strategy is similar to the mega rice project in Central Kalimantan.⁴⁴ The initial project in Merauke was Merauke Integrated Rice (MIRE). Unfortunately, only a few companies are willing to engage in rice, while more investors choose palm oil in the name of biofuel energy. That is why the concession for palm oil is so massive. "It is rather sad to see the development program of the Indonesian government," AA said.

On August 5, 2019, President Joko Widodo signed a presidential directive calling for the suspension of new permits and improved management of primary forests and peatlands. In this presidential order, all central and provincial governments must review permits, postpone opening new palm oil plantations and order a review of existing plantations.⁴⁵ According to the participants, the new Moratorium is being implemented in Merauke even though heavy machines are still operating to clear the land in some places. According to HL, they open the plantations for plasma farmers. AA raised his opinion that there was no transparent monitoring of the Moratorium's implementation from the central government in Jakarta to the

⁴⁴ Mochamad Indrawan, Julian Caldecott, and Ermayanti, "Mitigating Tensions over Land Conversion in Papua, Indonesia: Land Conversion in Papua," *Asia & the Pacific Policy Studies* 4, no. 1 (January 2017): 147–57, <https://doi.org/10.1002/app5>, p. 157.

⁴⁵ Reuters, "Indonesia President Makes Moratorium on Forest Clearance Permanent," Reuters, August 8, 2019, <https://www.reuters.com/article/us-indonesia-environment-forest-idUSKCN1UY14P>.

regional government in Papua. That is the reason why in Papua, new licenses are still being issued. The provincial government translated the Moratorium differently. Therefore, he added, "If the government is serious, they must order all local governments to stop issuing new permits and instruct all palm oil companies to stop opening up land."

Another project of President Joko Widodo is called village funds or *dana desa* in the Indonesian language. It is a form of community-driven development approach in rural areas which involves more than 74. 000 villages.⁴⁶ This *dana desa* aims to accelerate the improvement of people`s welfare. However, the use of *dana desa* is mainly allocated to infrastructure. The central government once again lacked evaluation and supervision of this village fund. GP said that the government should ensure that this fund is well implemented and allocated in the suitable projects.

The government lack of capability to fulfill its responsibility to ensure justice and prosperity to the people and the environment. The investment does not improve the welfare of the community. Instead, it has led to many conflicts. There is also no synergy between policy from the central to the local government. The government should improve bureaucratic procedures related to land tenure and permits and undertake strict supervision and affirmative action against companies that do not follow the rules.

Perception of the Corporation: "Faith without deeds will die," James

2:14

Maximizing profits is the sole objective of the palm oil companies in Papua. This is the perception of the respondents about the company. Palm oil has been accused of causing various environmental problems such as droughts, floods, forest fires, and adverse socio-economic effects on people. "Nevertheless, in the Indonesian palm oil industry, we have primarily found that business and government play separate roles, nor have we seen that businesses need to work with the government

⁴⁶ Isnawati Hidayah, Imam Mukhlis, and Denny Yarmawati, "Benefits of Community-Driven Development Program to Improve Livelihood: Case Study of Dana Desa (Village Funds) in Indonesia," *Proceedings of Economics and Finance Conferences*, (International Institute of Social and Economic Sciences, October 2019), <https://ideas.repec.org/p/sek/iefpro/9511840.html>.

to solve problems. The company's corporate responsibility for the development of the common good is far from ideal," AA raised his opinion.

In 2007, the Minister of Agriculture issued a new regulation that each company in one province can have permit on 100,000 hectares, which previously was only 20,000 hectares. According to the interviewees, the company uses strategies to violate the land acquisition. To meet the criteria of the government, the company faces a dilemma. The problem is that the costs of freeing land are extremely expensive. One of the examples occurred in Kalimantan. The initial capital for a new plantation and factory is 600 billion IDR. With such calculations, it is not surprising that plantation companies prefer to take another different route: deceiving the community with the help of government officials. One example is land fraud, which is part of the Community Nucleus Estate program (plasma).

The palm oil corporations in Indonesia lack transparency and accountability, including their objectives and operations. TS informed several companies that abandoned the plan after the land was cleared. After cutting down all the trees, they stopped their palm oil business because they just wanted to cut down the forest. He now symbolizes the city of Merauke, from *Kota Rusa* (the city of deers) to *Kota Rusak* (the broken city).

Commenting about Corporate Social Responsibility or *Tali Kasih*, AA commented that there is no community empowerment in this strategy. He mentioned one company that has promised *Tali Kasih* in terms of plasma estate. But in the end, they violate the community by building the plasma in one location for all smallholders without a letter of agreement. When injustices arise, people cannot express their voices.

During the New Order era, the community's anxiety in land disputes was rarely revealed due to repressive government practices. But now, a repressive approach is being abandoned. Civil society is organized, and the press can speak. However, in some regions, such as Papua, the community is still dealing with businesses and security forces.

In Indonesia, the company should start thinking about the community and the environment, not just profit. Every company has its general principles, visions, and missions, but unfortunately, they are only written on paper. "The principles of

business ethics will be meaningful and valuable when implemented on the ground. Is not faith without deeds will die as written in James 2:14?" AA argued. The government should review existing policies and practices and ensure these business practices align with international human rights laws and standards, including guiding business and human rights principles.

The company has an ethical responsibility to be an active partner in dealing with social problems, in finding a way to find a solution so as not to cause even more problems. Businesses and government must work together to find a solution for a sustainable palm oil industry. The business must have an ethical responsibility to the environment that goes beyond compliance with environmental laws. Usually, businesses imply the green economy decision when they see there are profits by doing that. It is not wrong, but their values should beyond profit maximization. That is an ideal responsibility.

Perception of the NGOs: a Good Controller

The government should work together with other stakeholders such as NGOs. According to TS, the NGO is a good control instrument because it has no interest, while the government automatically has an interest. Therefore, the government is not immune from bribery and payment. Each institution has an interest, but the important thing is which institution shows its work to find the best solution for everyone, unite to improve people's well-being, speak for justice and human rights, and educate and encourage society. Inform the community with accountability resources, and together with all stakeholders empowering and advocating their rights.

The Calling of the Church: Stand with People, Stand for Justice

When we try to find information about the church's involvement in Indonesia and the palm oil industry, we will find more information about the catholic church's involvement. I also recognize that the Catholic Church has done more for the people amid this oil palm issue in Merauke through the interviews. Among others are in Kalimantan and Papua, including in Merauke. We will also find services done by the protestant church in this palm oil expansion context.

As a church, there is an awareness to get involved in this palm oil industry, as conveyed by HL and TS from the protestant church. HL admitted that from time to time, protection is already executed by the church. But she finds it problematic, as she said, "Does it mean that we must always accompany our congregation to protect and always stand by them continuously? The church faces difficult challenges. When we try to help them, it is the community who turns against us in many ways." HL is reluctant to intervene as the church was never invited or involved during the agreement process. What the GKI TP church does is encourage the congregation to work well as laborers in the plantation, and follow company rules, so they can compete with other outside workers.

GKI TP was also invited to the meeting during the World Council of Churches visit in Merauke. Information on the objectives of the visit was lacking. "The theme of their arrival is pastoral visitation, so there is no such activity that can be carried out. We do not know. The important thing is that they came, and it has to be notes and records that they made," HL said.

GP, who works as a congregation pastor in Baidub, who serves the congregation in Baidub, understands that the church must do advocacy work to bring justice to the people. GP recognizes his limitations in advocacy and chooses a different diakonia by focusing on empowering children through education. There are 20 children from Baidub village who have attended secondary school in Wassur. "Well, I must admit, to educate people to claim their rights for justice, I have not done it. Then, I paved the way for Baidub children to study in Wassur," said GP. He admitted that due to the lack of network and support from the Synod and the Catholic Church in his region, he had difficulties doing the advocacy.

Of the interviews, the Catholic Church has done the most intense advocacy work. SKP is often invited to an interactive dialogue between church, business, and government. They also use the media to convey their statements to raise awareness about the problems of indigenous peoples around the palm oil industry. Their works also focus on palm oil and other investments such as industrial timber plantations or land clearing for sugarcane cultivation, linked to the Merauke Integrated Food and Energy Estates (MIFEE) framework.

AA said the church is responsible for criticizing the government and companies in the palm oil industry. The church must provide a critical record on the development of palm oil plantations, responses, and recommendations to the government. An example is a requirement to re-evaluate new concessions and at the same time organize old plantations.

“It is the church’s task to convey the voice of the suffering people who cannot speak to the company and government,” AA argued. According to him, the catholic church’s advocacy applies to the regional government and the central government in Jakarta.

An incredible project organized by the catholic church was the "Papua Kalimantan Forum" in 2010 to raise two issues: palm oil and the mining industry.

Indigenous Peoples of Papua and Kalimantan who were victims of palm oil and mining, gathered in Jakarta and participated in this national advocacy week. The second national advocacy week was held in 2011, with the objective to lobby religious leaders in Indonesia to do the advocacy work under challenging situations relating palm oil and mining industry in Indonesia.

At the corporate level, AA shared a success story of lobbying SKP and other NGOs to transform a corporate strategy called "green economy." With their intense advocacy work, this company started the green economy and invited a USAid consultant to help them with this new project and showcase their project on their website. On the global level, SKP works with Franciscans International, Viva International, International Associations of Chiefs of Police (IACP), and a parish in Rome that cares for Papua. In addition to the global level, AA recognized that advocacy at the global level could not be separated from advocacy at the national and regional levels. The necessity for a global level is to give the Indonesian government a critical note raised in international forums such as United Nations (UN) meetings. And the church can pressure international conferences to support issues at the local level. AA recommended that the church should not interfere in politics too much.

Strength, Weakness, Challenges, and Opportunities

In Merauke, according to the participants, the churches are divided rather than gathering strength. There is no cooperation between the Protestant and Catholic

churches. If the two churches cannot find common ground and blame each other, there will be no cooperation. While the suffering of Papua's people is a shared suffering, it later becomes a shared concern and responsibility.

According to GP, in the internal committee of the GKI TP, there is no clear linkage from the synodal, classis to parishes level. In the classis, there is a Justice, Peace, and Integrity of Creation (JPIC) Unit, but they did not respond to GP's complaints. Therefore, GP makes good contacts with other essential stakeholders in the community, namely the Tribal Council leaders.

SKP KAME builds the network not only from Catholic churches but also from other denominations. For example, the IACP. However, there is a lack of networks with other churches at the regional level. AA said they are working with the JPIC unit in the GKITP Synod, but not in the classis or the parishes. In addition to churches, NGOs also become SKP partners. However, according to AA, many NGOs are reluctant to bring up the palm oil issue because of the risks. He cited an NGO in the Netherlands called Cordei, a donor organization that helped Papua intensively. Now, this NGO has been closed because it was too open and critical.

That is the main reason, AA argued, why Misereor, Germany's Catholic church organization, does not interfere too openly. It takes the issue of indigenous peoples as the main issue, not the palm oil. Brot für die Welt, the Germany's Protestant church organization, has closed its projects in the palm oil field for more than four years, despite the fact that they aim to combat poverty and human rights. AA told that there are no United States NGOs or churches in this regard. The United States Agency for International Development (USAID) is an intergovernmental arrangement that does not directly affect community problems.

All participants agreed that when the church is serving the community, it is not immune to challenges and struggles. The church should consider addressing both the business and the community. The company works within people who are also members of the church. The church must understand business ethics and government policies surrounding the palm oil industry. The people still trust church workers. This is a strength and an opportunity for the churches of Papua.

Furthermore, some calling of church workers is still very strong. GP is one example. Despite the many struggles and deficit he faces, he still feels comfortable serving

in the Baidub congregation. NGO is not a church based-organization but has the same vision as the church. Therefore, both actors always work together. Only the appreciation is different. “We, the church, are moved by the holy spirit,” AA concluded.

Conclusion

Diakonia means service for justice and peace. Diakonia is not just a humble ministry. The church must bravely stand in between and stand with the people. Diakonia shows that the church must be able to intervene, criticize and evaluate the government and business.

From the interviews, especially with the Protestant Church, developing skills in diakonia, empowerment, and advocacy is necessary. In this context of palm oil, empowerment and advocacy are needed—likewise, the capacity for interdisciplinary knowledge for church leaders and church workers. Justice for the people means empowerment. Education is part of community empowerment, especially in the Papuan context.

Aside from dogmatic differences, the Protestant and Catholic churches have to build a solid network to support the fellowship. Using the media to share the challenges of the community in Merauke due to the palm oil industry can also be a tool to find solutions and invite partners.

Furthermore, interdisciplinary analysis is also required by international NGOs such as Misereor, BfDW, and other NGOs and churches that have not yet participated in this issue. Ecology, indigenous peoples' rights are not the only issues that need to be addressed in this palm oil industry. There are poverty, land grabbing, labor and business ethics issues, and all the other problems. Brot für die Welt and Misereor should consider working with Indonesian churches and NGOs to find a solution to palm oil in Indonesia.

The alternative or solution is not to stop palm oil but to stop human rights abuses, as confirmed by the participants. Indigenous peoples need to be protected.

Palm Oil in Indonesia has been through a long journey. However, adverse effects on the environment and the community persist. This industry requires a reassessment of its existence. The principle of protecting human rights and the

environment should be applied to the palm oil industry. In addition to palm oil, other alternatives need to be considered to increase people's welfare. Can such economic benefits be realized from this industry without compromising local community rights and environmental safety? This is the most crucial question for the development of the palm oil industry and plantations in Indonesia today and in the future.

Palm oil production can be highly profitable, but the benefits of palm oil production are unevenly distributed. From the field observation, the company makes a much higher profit than what is being returned to the community. The challenge is to build genuinely supportive institutions that protect human rights. Business ethics must be developed in a culturally inclusive way if a new world order of justice and peace emerges. Global processes of moral responsibility must be built, respecting individual and local self-determination and making the market an arena of justice and peace for all.

2.2.3.3. Analysis of the Interview with the Non-Governmental Organizations (NGOs)

To get a picture of how the NGOs perceive the palm oil existence and expansion in Papua and how they deal with this massive industry as an NGO, I interviewed two NGO activists: MB from Inter-Peoples Workshop for Learning or Bengkel Pembelian Antar Rakyat (Belantara) and CT from Greenpeace. I admit that I got more insights from the interviewee from Belantara Papua than the interviewee from Greenpeace. MB is the head of Belantara Papua himself, and I assume that he has more courage to give his opinion. While CT works with Greenpeace, he is more reluctant to speak openly regarding the complex structure of his organization.

This interview took place in Sorong in the West Papua province. I have to fly to Sorong because of the lack of contact with NGO activists in Merauke during my first research. More than ten NGOs in west Papua are concerned with peoples and their natural resources management and conservation.⁴⁷ The following two NGOs are active on environmental issues and palm oil expansion in Papua: Inter-Peoples

⁴⁷ Yunus Yumte, "NGO's In West Papua - Indonesia, Concern in Forests and Peoples Issues," *Tapak Batas Blog*, 2014, <http://tapakbatas.blogspot.com/2014/06/ngos-in-west-papua-indonesia-concern-in.html>.

Workshop for Learning (Belantara Papua). It takes part also in the preparation of a community against logging. Greenpeace is an independent global campaigning network dedicated to changing attitudes and behaviors, protecting and maintaining the environment, and promoting peace.⁴⁸

Strategy Movement from Critical Frontal Action to Community

Education

In their simple offices in Sorong, NGO activists from Belantara and Greenpeace exchanged information on their activities to cope with the palm oil industry and its expansion in Papua. CT from Greenpeace recognizes the balance of their activities between empowering the community and advocacy to the government and business. They educate the community on the negative and positive effects of palm oil, but through public consultation, they also sit down with companies and the government. One of the results is a jointly developed directive called Special Regional Regulation (Ind: *Peraturan Daerah Khusus*). Greenpeace also ran a campaign in 2018 under the title "Counting down."

Belantara Papua takes a different approach. The opinion of the media that NGOs only criticize and demonstrate is refuted by looking at the activities they have carried out. "Amid the expansion of palm oil in Papua, we are advocating on the periphery. We protect people from restricting the entry of palm oil into their area while educating them on their rights and providing them with various information and knowledge. It seems much more strategic and efficient," explained MB.

Belantara decides to empower or strengthen the community instead of showing frontal action criticizing the unethical business. "We used to be frontal. From 2000 to 2010, we were frontal. The results were pretty good, but we were tired. We suffer," said MB. The results do not correspond to suffering and energy expended. It appears that many companies in Papua continue to take a repressive approach towards anyone who interferes with their work system.

⁴⁸ See: Green Peace, "Greenpeace International 'Who We Are,'" Greenpeace International, 2020, <https://www.greenpeace.org/international>.

Furthermore, they change their approach, based on their awareness from evaluating the process of the palm oil entrance to some areas. Before the industry invaded their regions, the community was never prepared, neither by the government nor by the company. The customary leaders are the company's entrance to the community. They are often not immune from bribery. Belantara Papua is deviating from its core strategy to empower both people and community leaders. "We must prepare the people. They understand the advantages and disadvantages of palm oil so that the choices come from their own hands. We also strengthen the institution of indigenous people. These indigenous leaders need to be given a good education. From there on, we also protect them," MB argued.

There is less community participation in the whole system of the palm oil industry in Indonesia. The voice of the people is never heard, their opinion is never considered, whereas they have the largest capital: the land where the oil palm is planted. Belantara Papua empowers them to raise their voices, to demand their rights with transparent and fair offers. The community themselves will decide if they want to welcome this industry to their land or not. They will also submit applications to the company and government and not anymore remain silent victims. This new strategy produces decent results. Subsequently of their advocacy, in Seremuk area in South Sorong, including Raja Ampat, there is no palm oil or illegal logging companies have arrived in their regions. The people in South Sorong are independent and can organize themselves.

MB and his team have visited and educated around 15-20 villages to carry out their advocacy work in their region. One aspect of education is economic calculation regarding trees. How much profit will they make if they cut down their trees instead of handing over the entire forest to the company? Another education is about the economic calculation regarding the woods and intra-generation rights. "With a mutual agreement to cut one but plant ten Merbau trees, the community will also take into account the rights of the future generation. We ask them to inventory what they have on their land, the number of trees and the species before releasing their forest. Education for the people is far more important for the people to find new economic solutions," MB argued. While educating the people, Belantara Papua and the community focus on finding alternative economic solutions.

The results of their advocacy work, from frontal action to community education, the "advocacy-based education," shows another good contextual approach. The government and corporations have been disseminating insufficient information and not training people well, besides Belantara is showing its counterpart by the educational method. Education is the most relevant and crucial strategy in the Papuan context. This NGO understands well the need of their community, the character, and the weakness of their people. As conveyed multiple times by MB, people face a giant leap in their life but are not yet ready for that. From cultivators and free hunters, they are suddenly confronted with the company's patterns and regulations. "The people felt there was an enormous space in how to adapt to the new model and the new system. It confused them." To carry out this approach, the works require good communication skills and cultural sensitivity. Belantara Papua has this requirement. Moreover, realizing how strong the people's trust in these NGOs is another surprising matter amidst the crisis of trust among many NGOs. MB and his team understand well their strengths and opportunities and choose their strategy based on that.

Perception on the Assistance of Other NGOs

To respond to the networking with other NGOs, MB acknowledged the lack of assistance of International (global) NGOs to the local who encounter the problem directly in the field. The local NGOs help the International more than the International NGO helps them. "We Belantara Papua send results of our research and documentation to NGOs abroad and in Jakarta. For international support, we do not expect much. We report them the facts in the field and believe they will think of things should be done and give intervention." he said.

Observing the simple office and MB's confession, they are not a "rich" NGO. This means that they also do not receive sufficient funds from international NGOs. MB admits that they are self-financed or self-supporting in carrying out their work. They use their limited own resources to do significant work and show great responsibility. This is not an easy task to do. They have a strong calling to stand with the people, which MB acknowledged, "We dreamed of equitable development and prosperity. We want the community to live well, and the system and policies should guarantee the rights of the people."

CT suggested that global NGOs should address the conscience of the global community. The development of alternatives other than palm oil to supply the world market may be in coconut oil (Copra) as it is manufactured in Bitung, Papua can be achieved.

Perception of the Company

Both participants raised the issue of misusing the company's Cultivation Rights Title (*Hak Guna Usaha* or HGU). MB gave an example of a company called Intimpura, which owns the most extensive Cultivation Rights Title in Papua. What they do is subcontract the title to smaller companies without making this known to the customary landowners. This practice could lead to land conflicts in the future.

It is also common in the Indonesian palm oil business to leave the land vacant for years without planting because the company's main intention is to do the logging, earning them a considerable profit. Unfortunately, there are no sanctions for companies that engage in this arbitrary business. The company rejects any system that allows dialogue and good communication for solutions. The company considers NGOs as trouble makers and enemies. They want to keep their work system free from criticism. In addition to bribing government and clan leaders, MB said that the company also bribed pastors. "When a conflict arises between the company and the community, the company presents the bribed pastor, and the community stops demonstrating," said MB. Sounds pessimistic, in the end, MB concluded, "the company can only be changed from within."

Perception of the Government: Less education, less plan

MB admitted that NGOs often forget that they also need to criticize the government. The government is playing an essential role in this expansion of palm oil. The government is more driven by business. "Investors come to regional governments and bring with them a satellite map that shows the plantation areas. Without checking the field, they immediately signed the permit. The central government also does not enter into a dialogue with regional governments before issuing larger permits," said MB.

The government has less education and inadequate plans. They have no clear spatial and development plans. The central government also does not enter into a dialogue with regional governments before issuing larger permits. The regional government

is the one to be blamed for this expansion. Firstly, because they know better about the location of the regions, and secondly, they know about the character of their community. The government and community should map which areas are suitable for the plantation and which areas should be designated for a buffer zone where people can garden, hunt, and live their traditional lives. They need to empower the community before the massive industry enters and changes their life pattern. Another thing to consider is clear criteria for investors in the palm oil industry.

Perception of the Diakonia of the Church

"The church is complicated!" That is how MB perceives the church. He compares various pastors in the field. Some pastors are too close to the Bishop, and some pastors choose to struggle alone. Nevertheless, some want to work together with NGOs.

In the palm oil context, pastors stand in different positions. If the pastor is more inclined to the company, it will lead to the loss of trust from their congregations. "Pastors should position themselves in the middle. They have to stand firm in the prophetic voices, be on the side of the oppressed people. Leave general services like preaching in the pulpit, be radical like the pastors in Latin America. They are radically criticized the government and companies, and many times they have been subjected to repression, and some have lost their lives," said MB.

Apart from the complexity, MB still considers the church as a good partner. However, due to the complicated structure, he decides to work with the parish priests rather than the synod. The first information they usually receive is from the congregational pastors, and both of the parties will work together to educate the community and solve the problem. CT informed that Greenpeace collaborates with the Justice, Peace, and Integrity of Creation (JPIC) unit of GKI TP in Jayapura to advocate people in Bintuni and Kebar areas against Sinar Mas palm oil company.

There are two critical points to be derived from the experiences of NGOs and churches. Both of these points are interconnected and influenced each other, namely the bottom-up and top-down approaches. Firstly, according to MB, the cause of the different attitudes of pastors may be the inequality in vision and knowledge. "Not all pastors have the ability to analyze problems and choose their positions. The synod must strengthen their capacities and provide pastors with special training

before they are deployed to areas of conflict, particularly palm oil and mining. Pastors will recognize their call to defend the people and not to become a tool of dialogue for the company," said MB. In addition, their material needs should also be taken into account. Priests in the field play a crucial role and carry a huge responsibility. "They who serve in remote areas are the first to hear the voice of the people, the marginalized people whom the company oppressed. They need to feel truly at home, serving their well-being, assisting the community," said MB.

The second aspect is related to the synod level itself. The Justice, Peace, and Integrity of Creation (JPIC) unit needs a clear structure and strategy in synergizing the diakonia advocacy from the local congregations to the synod. The result is that the congregational pastors will not feel like they are working alone. At the same time, the Synod can assist the grassroots pastors with solutions, competencies, and funds. There also needs to be a re-evaluation of the vision and mission and a measurement that must be applied in the actions of the church and not only as a written statement. The calling of the church will inspire the church workers in their services, bottom-up and top-down.

Perception of the Palm Oil Industry in Papua: Welcoming under clear conditions

CT expressed his perception of the presence of palm oil: "Since the early days of palm oil in Papua, I have never seen palm oil leads to a prospering community to this day." There is no clear transparency for the benefit of the people and the benefit of this industry for Indonesia as a nation. How much are the state and provincial income? How much is foreign exchange obtained from palm oil? He argues that many investors come from Singapore, Malaysia, and China, aligning with MB's recognition. There is no German investor in the palm oil industry in Papua. This industrial development is damaging the environment.

"This palm oil program is good for the people, but we have to agree upon some basic principles," MB argues. Both interviewees submit their approval of the palm oil industry in Papua with clear conditions. Palm oil must bring benefits and prosperity to the people and the company as well. It must also not violate the ecology's rights. Both interviewees agreed on the palm oil moratorium. The

government should stop issuing permits while re-evaluating the existing industrial system or process and policies.

Conclusion

At the end of this section, I would like to highlight a few things following my observation. First, I want to say that the NGOs do an excellent job of empowering the local community to protect their forests and customary lands. Papua is the last forest in Indonesia, and these indigenous people are the final protective shield.

Second, the NGOs approve the presence of palm oil in Papua, but under clear conditions, companies operate according to existing guidelines, and the government must provide the company with clear rules and enforce the law. Also, the government should quickly respond to situations in the field and be ready to re-evaluate regulations that are no longer relevant.

Third, in my observation from the interviews, the community allows their assistance, which means that the people still trust these NGOs. This is a very prominent point when organizations engage in grassroots work. So far, they have done it, and they have succeeded, which was not an easy task given the lack of funds and resources. International NGOs should also support NGOs on the grassroots with the material.

Fourth, advocacy-based education is the most strategically practical approach for grassroots organizations. With all parties, finding an economical alternative for the community is our task together.

Lastly, the local NGOs need assistance from the international NGOs to build their capacity, especially in macroeconomic analysis. NGOs many times lack the institutional ability to take into consideration reflection on macroeconomics. Each time they interact with the macro-level issues, they see them from a limited, constrained standpoint, which often arises from the effects they see on the grassroots level. I do not say that this perspective is not crucial, but it is not sufficient. The lack of an analytical framework regularly caused rejection and confrontation, to the market-oriented development model over its alternatives. For example, the NGO in Papua taken into research, rejects the market-oriented development model over its alternatives without prior planning.

NGOs and other civil society's advocacy have been accepted as a part of the political scene at the international level. With a wide network around the world, they can collect and provide relevant information to the issues of concern worldwide. With the provision of local research and analysis of local NGOs, they successfully facilitate news and issues from the South, wherein the problem takes place, to the North, where many decisions affecting the problem are made. NGO in Papua noted a huge gap between the local NGOs and the international, in terms of being beneficiary of the information.

2.2.3.4. Analysis of the Interview with the Government

This interview aims to get information about the government's opinion about palm oil proliferation in Papua. How do they show their work and responsibility in this industry, and what challenges do they face as government, I interviewed three government officials, two of them work in the labor department in Merauke, and one is the planning director. Two interviews took place in the labor department office, and one was in the GKI TP Classis office.

SU and HA come from Java and are residents of Merauke. Both have a bachelor's degree. EH is a native Papuan who works as the planning director in Merauke Province Government. He gets a doctoral degree in Socio-Politic and is also active as the treasurer in the GKI TP Merauke classis.

Government's Perception of the Palm Oil Industry

Palm oil absorbs the workforce in Merauke. That is the statement of the interviewees. "There are 18 companies in Merauke, and around 20,000 people work in this sector," SU declared. However, out of 20. 000 employees, only 1000 are Papuans, and most work as low-wage laborers. HA argued that palm oil provides jobs for people from neighboring provinces like Nusa Tenggara Timur, Nusa Tenggara Barat, and Java. He admitted that the locals do not want to take advantage of the opportunities. The mindset and character of Papuans, molded from birth and challenging to transform, are an obstacle to local people reaping the benefits of the palm oil industry in their regions. The labor department sends information on job vacancies through circulars. We can assume that the government lacked seriousness in promoting the local population.

To overcome this situation, one of the projects being carried out by the government is conducting training courses for young people. "As a labor department, we worked with corporations and the Navy to train 700 locals in Sorong and Yogyakarta for two weeks to develop their characters. After the training, they will complete a six-month internship in the company. The central government funds this project for 1.200 local people," HA conveyed their activities. Participants see palm oil as a successful means of developing Papua, creating jobs, and enhancing community welfare. EH agreed that the primary goal of palm oil is to make a significant contribution to the local community.

Roles of Government and their Challenges

Through the interview, EH shared much information about spatial and development planning related to the palm oil industry in Papua. According to Law No. 27/2007, spatial planning is an integral part of Indonesia's land conversion decision-making process. The law obliges central, provincial, district, and local governments to provide land use planning information to local communities.⁴⁹ Spatial planning should also include sustainability aspects and incorporate socio-cultural values into economic goals.⁵⁰

In this spatial planning, the local government in Papua provides land information to attract investors.⁵¹ The current law also allows investors to propose investing areas in Papua.⁵² Therefore, they tend to choose locations with a higher strategic value closer to the main rivers, such as the Digoel and Bian rivers, to quickly transport fresh fruit bunches to the factory and unprocessed palm oil to the refinery.⁵³

EH shared his concern that the Merauke government has shown its responsibility regarding spatial planning. They made recommendations for some areas suitable

⁴⁹ Indrawan, Caldecott, and Ermayanti, "Mitigating Tensions over Land Conversion in Papua, Indonesia."

⁵⁰ Barano Sulistyawan et al., "Integrating Participatory GIS into Spatial Planning Regulation: The Case of Merauke District, Papua, Indonesia," *International Journal of the Commons* 12, no. 1 (April 23, 2018): 26–59, <https://doi.org/10.18352/ijc.759>, pp. 26-28.

⁵¹ Agus Andrianto, Heru Komarudin, and Pablo Pacheco, "Expansion of Oil Palm Plantations in Indonesia's Frontier: Problems of Externalities and the Future of Local and Indigenous Communities," *Land* 8, no. 4 (2019): 1–16.

⁵² Sulistyawan et al., "Integrating Participatory GIS into Spatial Planning Regulation."

⁵³ Andrianto, Komarudin, and Pacheco, "Expansion of Oil Palm Plantations in Indonesia's Frontier."

for palm oil. Nevertheless, it is often not recognized by the central government. When dealing with international donors like Norway and the Australian Agency for International Development (AusAID), there is a conflict of interest. According to EH, the assistance from this international donor agency does not respect the local government and leaves them with double burdens: carrying out the donor's project and executing their regional plans.

"Supervisory" is one of the critical functions of government, EH suggested. Especially the labor department. SU from the labor department argued, "We control the companies every year. We request their annual reports on the progress of their workforce. In fact, some companies have hired people outside of Merauke without contacting us, but if no one reports and complains, how can we know it? How do we apply sanctions?" The government, EH said, should act as an intermediary between the community and the company during the initial process of the palm oil and the agreement. He admitted that the government had worked responsibly on some projects, such as the village fund. To date, according to EH, no more investors are entering Merauke because the business has exceeded the previous plans.

Perception of the Company

In participants' observation, the agreement made by the government and corporations towards the community is often not being fulfilled. "Both the government and the company have agreed that 10% of company's profit should fund plasma plantations. There is also a *Tali-Kasih* agreement based on community recommendations. There is no nominal value or percentage for this *Tali-Kasih*. I immediately see that the companies are not complying with the agreement," said EH. With many challenges faced by local people and less benefit received, not all communities agree with the industry's coming in their region.

Perception of the Church: Church Needs Plan

"Church has no plan," that is one statement conveyed by EH. He believes that when the church has a clear vision and strategic planning, it can play an essential role in society and partnership with businesses and governments. "Church can be a good stakeholder to the government, but unfortunately, the network has not been established yet because the church does not have a synchronized document. The

church only comes when it needs something. The church does not put its logic and vision in one document, with clear annual targets and activities," EH stated.

The church must raise its prophetic voice in dealing with the Papua palm oil industry and human rights abuses. This prophetic voice, defined by EH, engages in compassionate politics like Jesus. Serve the people, but not do politics. "The catholic church has reached this stage. Their advocacy and network are also extensive. But the protestant church, we are still at the charity stage." EH noted that in his region, there is a great separation between Catholics and Protestant churches. "Churches should sit together, do a collective assessment and unite their strengths to help the community," he said. The other two respondents from the labor department have not yet considered churches or NGOs as their stakeholders.

Conclusion

From the interviews, I assume that the government in Merauke lacks an understanding of some essential things like the company`s rights and the definition of Corporate Social Responsibility (CSR). The labor department informed that hiring and firing employees according to its rules and requirements is the company's prerogative.

How if the procedures taken by the company violate human rights? What role does the government play in ensuring that companies apply fair practices to their employees? While according to the labor department, the government only controls the corporations based on their annual reports on the progress of their workforces, the standard of wages, social security, and health insurance. Evaluation and monitoring are essential to ensure that companies operate in accordance with regulations.

Corporate social responsibility, due to their understanding, is not an obligation of a company. According to my observation, Corporate Social Responsibility is not regulated and defined, and there are still no consolidated guidelines and regulations on CSR, and it is not well developed yet. CSR indicators are needed, how much is the investment for environmental protection, wages, and community development. There should be a calculation based on the consequences brought about by the industry and indicators for the outcomes based on the ethical considerations, how companies will be sanctioned in cases.

The Indonesian government together with multiple organizations and companies promoting palm oil, argue that this crop promotes development by creating numerous jobs for the rural poor. In 2017, the working-age population in Indonesia was approximately 192.1 million.⁵⁴ Palm oil is one of Indonesia's most strategic plantations, particularly its contribution to exports and employment. Nevertheless, this development is understandable as access to income without social change has only turned indigenous people into cheap labor in Papua.

Furthermore, based on my observations, I find human rights violations concerning the workforce. If the government claims that the company employs people, and we agree that this is one of the advantages of the industry, why not strive for fair employment? The government will not control or react to violations as long as there is no complaint or report from the field. This is not right. We need to ensure the decisions produce results that meet society`s needs and make the best use of resources for the prosperity of the people, including the presence of the palm oil industry. It is imperative that the indigenous forest communities living on the land proposed by the company fully understand the company plan as soon as possible.

The government of Indonesia should design palm oil with more environmentally friendly principles. The local governments in Merauke, Boven Digoel, and Mappi should take immediate action to resolve administrative and customary land borders issues, issuing local regulations concerning indigenous land and developing plasma cooperatives. Government, NGOs, and stakeholders engage in intensive dialogue. The proposal for further dialogue seems to bring multiple parties into an agreement, but the process shows that a comprehensive reassessment is needed to check whether large-scale plantation development is likely to positively change indigenous peoples.

Diakonia Experts

With the interviews from diakonia experts, I wish to find the correlation of diakonia in a global setting in synergy with the diakonia in the local context and why and how should global diakonia contribute to assist the community affected by the palm

⁵⁴ Statista, "Indonesia: Working Age Population 2006-2017," April 6, 2020, <https://www.statista.com/statistics/710985/indonesia-working-age-population/>.

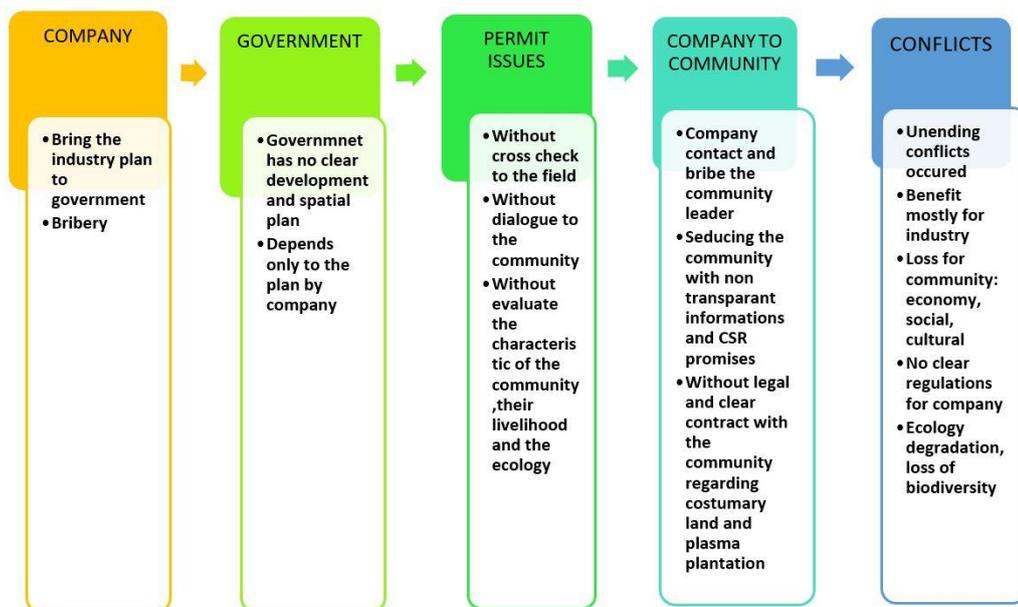
oil industry in Indonesia, as well as to have a clearer perspective about diakonia in Indonesia. Diakonia experts mean someone who is academically and practically experienced with this diakonia knowledge, especially in Papua, but I cannot find any to be interviewed.

Based on this lack of experts in the diakonia field, it will be one of the recommendations to empower the academic field of diakonia in Indonesia.

2.3. Interim Result

Here I will draw a scheme proposed by the interviewees and compare it to the reality in the field, and hopefully, it will assist me to find the gap and the necessary solutions. From the diagram, we can see that the current process always leads to conflicts. The investors come to the district government and bring together a satellite map from Jakarta, where the areas are already plotted. Meanwhile, the government immediately signs the permit with inadequate spatial and development plans and without cross-checking in the field. The company bribes the indigenous leader to release the community's land without proper dialogue and start its business.

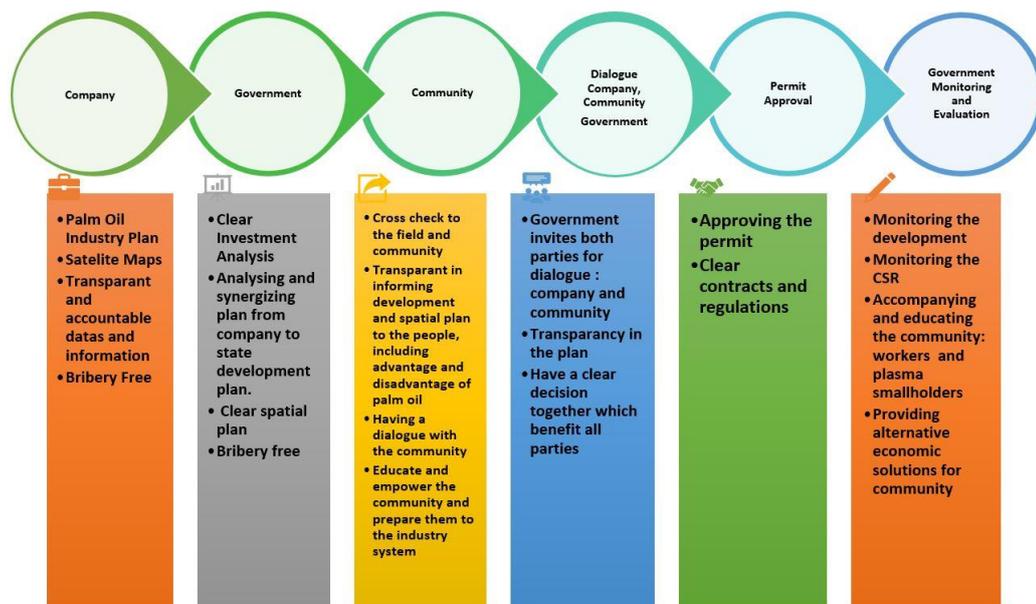
Figure 2-6. The Current Process of Palm Oil Industry



Source: Author's collaboration from the interviews.

When it comes to palm oil sustainability, it has to start with the proper process and transparent regulations. There should be a new scheme that contradicts the current one. The proposal is a dialogue between three parties: the government, the company, and the community. In addition to the industrial plan proposed by the company, the government must also prepare with the appropriate spatial plans. They synergize both plans and communicate them to the community. On that account, people will understand the industrial plan, which areas can be surrendered, and which sites are required for a buffer zone for gardening and hunting. How much profit they will get and what challenges they will face. The government shows its facilitating role as an intermediary to explain what work scheme should be offered to the public.

Figure 2-7. Proposed Scheme of Palm Oil Industry



Source: Author's collaboration from the interviews.

Chapter 3

Background, History and Current Issues of Indonesian Palm Oil Industry

This chapter will start with an introduction to the Indonesian economy and its development plans, followed by the history of palm oil in Indonesia and the current condition of this industry. In the end, the issues related to the palm oil industry, the key actors and interim results will be discussed in this chapter.

3.1. Indonesia and the Open Market

Indonesia is a market economy in which state-owned enterprises and large private business groups play an important role. Looking back to the economic history of Indonesia, the integration into the global market was taken place long before. The birth of modern Indonesia is conventionally dated from the Declaration of Independence on August 17, 1945. This young country faced immediate problems, which are not only political but economical as well. Only in three decades during 1966-1996, she has experienced three major phases characterised by specific economic challenges, policies and performance, which are seen as follows:

- 1966-1973: Stabilization, reconstruction, partial liberalization and economic recovery
- 1974-1982: Oil boom, rapid economic growth and increased state intervention
- 1983-1996: After the oil boom, deregulation, further liberalization and rapid export growth.⁵⁵

One prominent characteristic during the phases is liberalization. Soeharto as the second president during these 30 years tried to change the anti-western or anti-capitalism attitude by the previous regime led by Soekarno, which he saw as a hindrance to the economic development of Indonesia. Some previous policies of

⁵⁵ Kian Wie Thee, "The Soeharto Era and after: Stability, Development and Crisis, 1966-2000," in *The Emergence of a National Economy: An Economic History of Indonesia, 1800-2000*, ed. Howard W. Dick, Vincent J. H. Houben, and Jan Thomas Lindblad (New South Wales: Allen & Unwin, 2002), p. 203.

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the Sukarno government cut off ties with the West, segregating Indonesia from the global economy and inhibiting the country from receiving much-needed foreign aid.⁵⁶

Therefore, the policy of reintegrating Indonesia into the world economy was a cornerstone of the new government led by Soeharto. Indonesia started to join the International Monetary Fund (IMF), the United Nations (UN), and the World Bank in the second half of the 1960s for financial assistance and foreign aid from western countries. Consequently, trade and investment barriers were reduced, a free-market mechanism was restored by decontrol measures, followed by the implementation of the Foreign Investment Law (1967) and Domestic Investment Law (1968) to attract the investors to invest in Indonesia. Agriculture, manufacturing, and services are the three main sectors to sustain the economic growth of Indonesia.⁵⁷

Long before the plan of reintegration to the world economy by Soeharto, Laissez-faire and dirigisme has characterised Indonesia for many centuries.⁵⁸ An open, laissez-faire trade regime was maintained on behalf of the plantation big business. At first, it was only “an experimentation.” In the year 1800-1830, Muntinghe proposed to the colonial government that cash crops should be grown on plantations outside Jakarta. The original intention was to improve indigenous living standards through the provision of paid labour and increase revenues from the colony. Unfortunately, the idealistic experimentation gave way to systemic exploitation to secure surpluses and monopolized the colony's transportation and sale.⁵⁹ During these times, many regions in Indonesia witnessed a remarkable transformation of their economies. The production of traditional exports increased, and new export staples emerged to respond to the growing markets in Europe. Even so, the transformation of Indonesia in the 19th and early 20th century into an open export-oriented economy did not lead to rapid structural change. Booth argues that the commitment to integrate with the global economy is not wholeheartedly. The

⁵⁶ Indonesia Investments, “Indonesia New Order Miracle - Suharto’s Presidency - Orde Baru,” Indonesia Investments, accessed July 30, 2020, <https://www.indonesia-investments.com/culture/economy/new-order-miracle/item247>.

⁵⁷ Anne Booth, *The Indonesian Economy in the Nineteenth and Twentieth Centuries: A History of Missed Opportunities* (UK: Palgrave Macmillan UK, 1998), p. 198.

⁵⁸ *Ibid.*, p. 157.

⁵⁹ *Ibid.*, p. 138.

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government is not convinced of the benefits of integration into the world economy.⁶⁰ Individuals or small community groups carried out most capital formation. People engaged in a directly productive activity in an enterprise operated mainly by family labour, in small farms with surplus labour and materials to improve productivity. These family-based activities have centered on the agricultural sector. The indigenous business sector in the 1950s remained weak, and there was still widespread distrust among many Indonesians of any form of private enterprise. It was not until 1967 that the Suharto government promulgated a new foreign investment law. Criticism was raised that this law would lead to Indonesia continuing to be dominated by foreign business interests. The state has proclaimed the green revolution as one of the efforts in disseminating new technologies in smallholders' agriculture. Still, it failed insofar as it led to a sharp polarization in income distribution in rural areas or widespread labour displacement.⁶¹

The New Order of the second president of Indonesia Soeharto was marked by the rising power of the army or military-civilian government of the New Order. Using pragmatism as its main tenet, and in complete contradiction to policies of Guided Economy, the rising regime of the "New Order" moved quickly to promulgate the 1967 Foreign Investment Law and the 1968 Domestic Investment Law to reopen the economy and revive private investment activities. Foreign aid from Western nations was liberally used to revive production and rehabilitate the long-neglected infrastructure left behind the guided economy era. One of the plans during this New Order called for a rapid increase in exports of palm oil, logs and mining products. Based on its obvious economic and social importance and inspired by the successes of the Asian Green Revolution, agriculture was thus established as a major catalyst for growth. It was obvious that the economic plan was liberalistic.⁶² The economic model of Indonesia's economy developed in line with the Neo-Keynesian model of economic growth.⁶³ The fastest possible role of economic growth will be achieved

⁶⁰ Booth, p. 203.

⁶¹ Ibid, p. 283.

⁶² Dorodjatun Kuntjoro-Jakti, *The Political-Economy of Development: The Case of Indonesia Under the New Order Government, 1966-1978* (California: University of California, Berkeley, 1981), pp. 40-43.

⁶³ Ibid, p. 25.

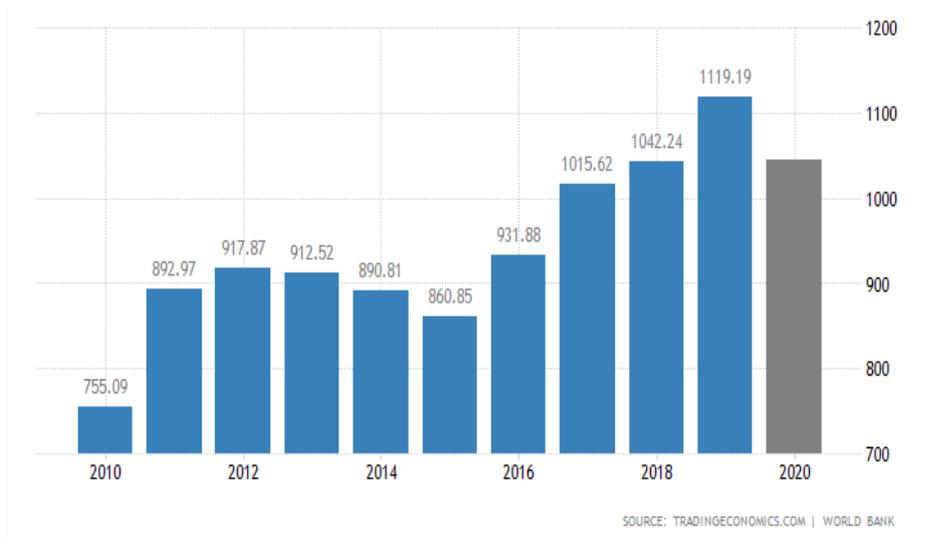
3. Background, History and Current Issues of Indonesian Palm Oil Industry

by injecting a massive dose of capital investment and labor force to gain the rise of macro indicators as GDP and GNP per Capita.

3.2. Indonesia Current Economic Condition

Twenty years after the Asian financial crisis in 1998 and 10 years after the global financial crisis, Indonesia has grown significantly, becoming the largest economy in Southeast Asia and one of the world's emerging economies. As a member of the G20, Indonesia is an emerging country, and its economy ranks 16th in the world in terms of gross domestic product (GDP). Over the past two decades, GDP per capita has increased by 70%.⁶⁴ According to official World Bank data and Trading Economics forecasts, Indonesia's gross domestic product (GDP) in 2019 is 1119.19 billion USD, as shown in Figure 3-1. Indonesia's GDP accounts for 0.93% of the world economy.

Figure 3-1. Indonesia Gross Domestic Product (GDP)



Source: Data from Trading Economics, 2020, "Indonesia GDP 1967-2019," <https://tradingeconomics.com/indonesia/gdp>.

Indonesia is rich in cultural diversity and natural resources. Even though individual Indonesians and mostly foreign companies have controlled the majority of the economy. As a young and dynamic democracy, Indonesia is urbanizing and modernizing rapidly. As the fifth most populous nation in the world with 270.626

⁶⁴ OECD, "Indonesia Economic Snapshot - Economic Forecast Summary (June 2020)," OECD, June 2020, accessed July 30, 2020, <http://www.oecd.org/economy/indonesia-economic-snapshot/>.

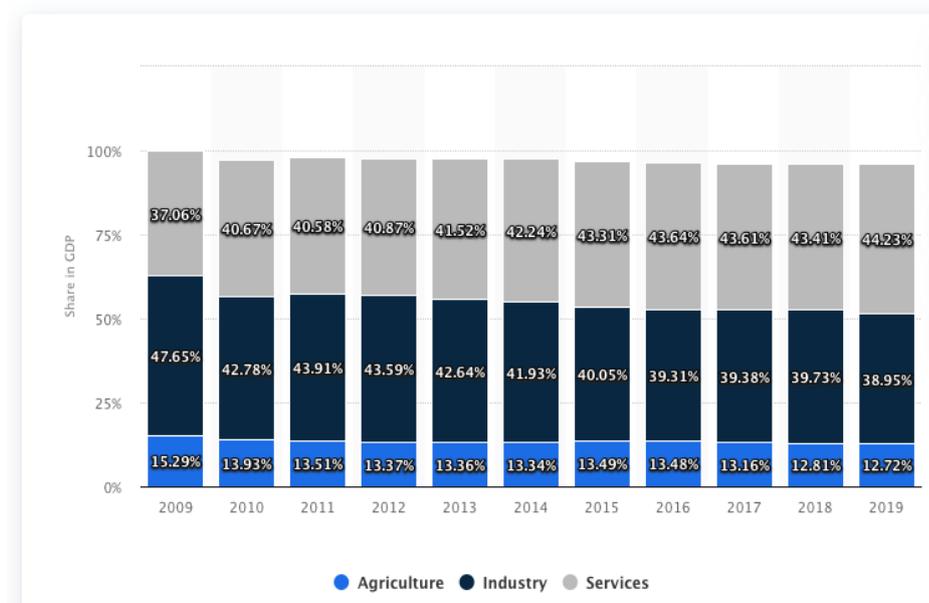
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million people, the difference between Indonesia and other emerging economies is that half of the population is under 30, and the proportion of the working-age population will increase in the next ten years.⁶⁵

Over the last 50 years, Indonesia's economy occurred transformations of industrialization and urbanization where manufacturing and services became a significant part of the GDP. However, agriculture shows its significance as part of the economy seen in Figure 3-2.

In 2019, agriculture accounted for approximately 12.72% of Indonesia's GDP, industry accounted for 44.23%, and service industry accounted for 44.23%. In 2020, Indonesia's agricultural GDP will increase from 71.508 billion IDR in the first quarter of 2020 to 96.328 billion IDR in the second quarter of 2020.⁶⁶

Figure 3-2. Share of Economic Sectors in the Indonesia GDP 2009-2019



Source: Data from H. Plecher, "Indonesia - Share of Economic Sectors in the Gross Domestic Product 2019," Statista, November 18, 2020, <https://www.statista.com/statistics/319236/share-of-economic-sectors-in-the-gdp-in-indonesia/>.

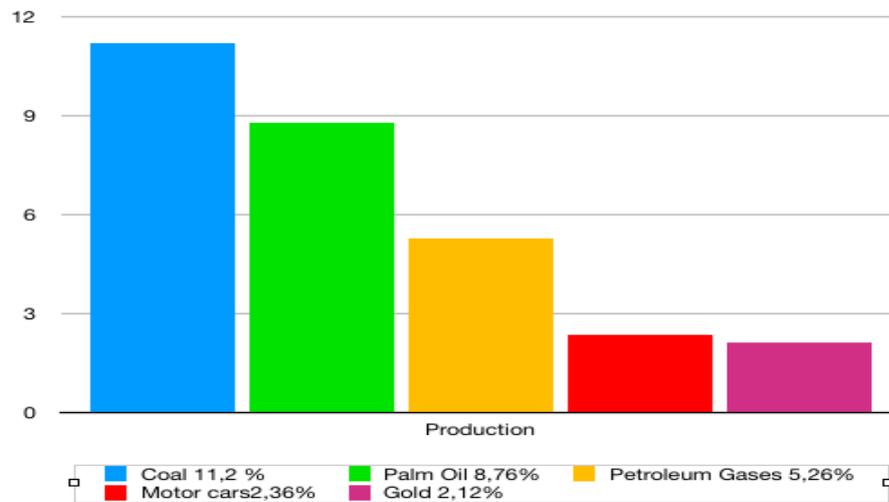
⁶⁵ United Nations, "Indonesia - General Information," United Nations, accessed July 30, 2020, <https://data.un.org/en/iso/id.html>.

⁶⁶ Trend Economy, "Indonesia GDP from Agriculture," Trend Economy, June 27, 2019, https://trendeconomy.com/data/total_structure_h2?time_period=2019&reporter=Indonesia&trade_flow=Export&commodity=TOTAL&partner=World.

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Agriculture has proven to be one of the main sources of income and employment in rural areas, considered to play a role in alleviating poverty. Among the agricultural products, palm oil is the one which also leads in the manufacturing sectors. Figure 3-3 shows that agriculture represented by palm oil is the second largest export in Indonesia, with palm oil exports valuing 14.6 billion USD in 2019. In 2018, Indonesia's major trading partner countries were China, Japan, United States, India, and Singapore.⁶⁷

Figure 3-3. Top Five Indonesian Exports



Source: Trend Economy, "Annual International Trade Statistics by Country 2010-2019," November 15, 2020, <https://trendeconomy.com/data/h2/Indonesia/TOTAL>.

As a source of income, as mentioned above, Indonesia's population is also highly dependent on agriculture, where 28.64 % of its population are employed in this sector.⁶⁸ Nevertheless, in comparison to the previous decade (see Figure 3-4), the percentage of Indonesians working in the agriculture sector decreases, falling from 54.02 % in 1990 to 28.64 % in 2019. Between 2003 and 2013, according to Statistics Indonesia, the country lost 5.1 million farmers, and this trend will

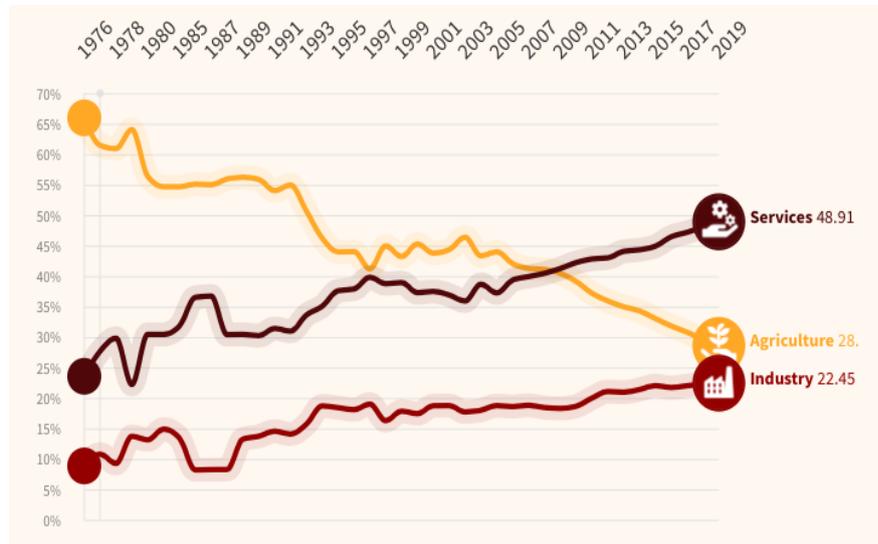
⁶⁷ WITS, "Indonesia Trade Balance, Exports, Imports by Country 2018," World Integrated Trade Solution-WITS, 2018, <https://wits.worldbank.org/CountryProfile/en/Country/IDN/Year/2018/TradeFlow/EXPIMP/Partner/by-country>.

⁶⁸ The Global Economy, "Indonesia Employment in Agriculture from 1991-2020," TheGlobalEconomy.com, 2020, https://www.theglobaleconomy.com/Indonesia/Employment_in_agriculture/.

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continue into the next few years. By 2063 according to the trend, Indonesia will have lost all its farmers.⁶⁹

**Figure 3-4. Indonesia-Employment in Agriculture, Services and Industry
(% of total employment)**



Source: Data from Made Anthony Ishwara, "A Land without Farmers: Indonesia's Agricultural Conundrum," *The Jakarta Post*, 2020.

The agricultural sector as one pillar of the Indonesian economy, according to some researchers, has not yet achieved its full potential.⁷⁰ Under President Joko Widodo's business-oriented management, major successes have been achieved through the acquisition of investors, greater use of mechanized agricultural technology, investment in infrastructure, and expansion of the arable land, all of which are documented in the Indonesian economic plan. Improving the welfare of people working in the agriculture sector will be a priority of the government. This issue should be the state's concern because the majority of the poverty afflicts rural communities. Even though the government had successfully lowered the national poverty rate from 24.2% in 1998 to 9.66% in 2018, 40 percent of the Indonesian

⁶⁹ Made Anthony Ishwara, "A Land without Farmers: Indonesia's Agricultural Conundrum," *The Jakarta Post*, 2020, accessed October, 09, 2021, <https://www.thejakartapost.com/longform/2020/08/13/a-land-without-farmers-indonesias-agricultural-conundrum.html>.

⁷⁰ Oxford Business Group, "New Areas for Growth in Indonesia's Agriculture Sector," Oxford Business Group, 2017, <https://oxfordbusinessgroup.com/overview/breaking-new-ground-small-scale-farming-and-mechanised-production-set-unlock-sector%E2%80%99s-economic>.

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population is still living in poverty, with social equality increasing in urban areas.⁷¹ In 2018, the poverty rate in rural areas was 13.2%, while in urban areas it was 7%.⁷² 89% of Village Funds expenditure was allocated to infrastructure development in 2015 to tackle this issue. Around 6% of spending was allocated to building construction and 2.5% to capacity building and empowerment, respectively. Lack of infrastructure in many rural areas is a key constraint on communities' livelihoods and welfare according to the government. Therefore infrastructure was a priority of existing village development plans. As new and better roads gradually improve villages' access to markets and other opportunities, it will take time for village funds to be fully effective.

3.3. Indonesia Development Plan

Indonesia's vision to become 'a Self-Reliant, Advanced, Just, and Prosperous country in the year 2025,' as mandated in the Preamble to the Constitution of 1945, demands the transformation of its state and economy. To advance this vision, Indonesia has formulated the 2005-2025 Long-term National Development Plan (*Rencana Pembangunan Jangka Panjang Nasional* or RPJPN) in accordance with Law No. 27/2004 on National Development Planning. This development plan is the continuation and renewal of the previous plan, which covers 20 years. The long-term national development plan is implemented through the 5-year mid-term national development plan (*Rencana Pembangunan Jangka Menengah Nasional* or RPJMN).

Further on, these plans are operationalized through the Annual Government Work Plan (*Rencana Kerja Pemerintah* or RKP) as the basis to formulate Draft Government Budget (*Rencana Anggaran Pendapatan dan Belanja Negara* or RAPBN).⁷³ RPJPN and RPJMN are two key documents framing Indonesia's

⁷¹ OECD, "Social Protection System Review of Indonesia," OECDiLibrary, April 11, 2019, accessed October, 09, 2021, https://www.oecd-ilibrary.org/development/social-protection-system-review-of-indonesia_788e9d71-en.

⁷² The World Bank, "Indonesia: Boosting Rural Government Capacity, Infrastructure, and Citizen Engagement to Accelerate Poverty Reduction," World Bank, June 27, 2019, <https://www.worldbank.org/en/news/press-release/2019/06/26/indonesia-boosting-rural-government-capacity-infrastructure-and-citizen-engagement-to-accelerate-poverty-reduction>.

⁷³ Mustafa Yagci and Natasha Ardiani, "National Development Planning, Industrial Policy, and Sustainable Growth Challenges in Indonesia and Malaysia: A Comparative Historical Analysis," 2018, 1–29, https://doi.org/10.1007/978-981-10-3964-5_16-2, pp. 8-9.

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industrial policy. To ensure alignment between regional and central governments, ministries, government agencies, subnational or regional governments are required to take into account both of these documents in formulating their respective strategic and budget allocation

The Indonesia Long-term National Development Plan (RPJPN) highlighted some priorities for Indonesia, which is broken down into four sections each spanning five years, as shown in Table 3-1:

Table 3-1. Indonesia’s Long-term Development Plan 2005-2025

Indonesia’s Long-term Development Plan 2005-2025 Stages and Scale of Priorities	
FIRST MEDIUM-TERM (2005-2009): Reforming Indonesia	<ul style="list-style-type: none"> • The secure and peaceful Indonesia • Indonesia that is just and democratic • The Increasing welfare of the people • Creating a conducive business climate and improved infrastructure
SECOND MEDIUM-TERM (2010-2014): Consolidation of Reforming	<ul style="list-style-type: none"> • The improvement of the people’s welfare: Increased income per capita, declined poverty and unemployment rate, and declined welfare gap. Increased education level and accelerated growth outside of Java • Increasing the competitiveness of Indonesia by strengthening manufacturing industry and agricultural development, development of science and technology and infrastructure • Attaining sustainable development and management of natural resources
THIRD MEDIUM-TERM (2015-2019): Consolidation of Development	<ul style="list-style-type: none"> • Competitiveness of Indonesian economy by integrating of manufacturing, agriculture, the availability of infrastructure and rural infrastructure • Increasing quality of human resources, science and technology
FOURTH MEDIUM-TERM (2020-2024): Realization of Self Reliant, Advanced, Just and Prosperous Indonesia	<ul style="list-style-type: none"> • Various regions competitive advantages supported by qualified and competitive human resources • Established democracy and law enforcement in all aspects

Source: Law of the Republic of Indonesia number 17 of 2007 on Indonesia Long-Term National Development Plan 2005-2025, Copied by The State Ministry of National Development Planning.

According to the plan, Indonesia focuses on self-reliance and development, justice, fairness, equality, democracy and connectivity across its seven island regions. The first phase of the 5-year development plan under President Yudhoyono reflected the

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success of the plan indicated through poverty reduction. Poverty was reduced from 16.66% of the total population to 15.3%; illiteracy rate went down from 9.55% to 6.22%; unemployment went down from 11.24% to 8.46%; the prevalence of malnutrition declined. It is also improved in the corruption perception index and the good transition of democratic proved by the security of various elections.⁷⁴ Even though there is still a long reform road ahead, because according to the data of the Corruption Perceptions Index (CPI) published by Transparency International, currently ranks 198 countries on a scale from 100 as very clean to 0 as highly corrupt, Indonesia ranks on number 85 scores a 40.⁷⁵ Corruption can still be a hindrance to justice economic development in Indonesia.

On October 20, 2014, Joko Widodo was inaugurated as the seventh president of Indonesia has determined the National Medium Term Development Plan (RPJMN) of 2015-2019, which contains the '*Nawa Cita*' development agenda as the guideline for implementing government roles and implementing development in the coming five years. *Nawa-Cita* consists of nine development priorities. The three main focuses in implementing this *Nawa-Cita* are first, infrastructure in supporting the efforts for increasing efficiency in distribution activities of Indonesian's productivity and competitiveness. The infrastructure will be developed in partnership with the private sector through public-private partnership scheme.⁷⁶ Secondly, human beings as subject to development, and thirdly is economic deregulation policies some of which are the simplification of the bureaucratic process and the enforcement of legal certainty. His vision is 7% annual growth of GDP by 2020, and still through foreign investments by the liberalization of its financial sector and increasing exports which means that Indonesian's economy still has a high dependence on global market demand.

Undeniable Indonesia until now still relies on its natural resources to add to its GDP and growth to supply global demands. By 2013, nine out of ten of Indonesia's main

⁷⁴ Yagci and Ardiani, p. 9.

⁷⁵ Transparency International, "Corruptions Perceptions Index 2019 for Indonesia," Transparency.org, 2019, <https://www.transparency.org/en/cpi/2019/idn>.

⁷⁶ Coordinating Ministry for Economic Affairs, Republic of Indonesia, "Master Plan Acceleration and Expansion of Indonesia Economic Development 2011-2025" (Jakarta: Indonesia Coordinating Ministry for Economic Affairs, 2011), p. 29.

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export commodities were resource-intensive: coal, natural gas, vegetable oils, petroleum, rubber, paper, copper, residual petroleum, and nickel. These main commodities contributed more than 50% of the value of total exports.⁷⁷ The biggest dependence is mainly palm oil production. However, due to the lack of government regulations, the weak law enforcement, and the high level of corruption, most companies and smallholders involved in oil palm production use unethical methods, which have led to large-scale greenhouse gas emissions.

Nevertheless, since the recent National Medium Term Development Plan (RPJMN) pointed out that the green economy should be the basis of Indonesia's development plan, there are still expectations for further improvement. The emphasis is to be on inclusive and sustainable growth, increasing the value-added of natural resources with the sustainable approach, increasing quality of the environment, disaster mitigation, and tackling climate change.⁷⁸ In the agenda of reforming law enforcement agencies in the development plan, Indonesia will protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt biodiversity loss. For society, the government will promote a peaceful and inclusive society to promote sustainable development, provide access to justice, and establish effective, accountable, and inclusive institutions at all levels.⁷⁹

The current National Medium Term Development Plan (RPJMN) 2015-2019 aims to improve people's quality of life, eliminate disparity and inequality, and pursues the following goals: community development, reducing the income gap by increasing productivity, and taking measures to reduce poverty and promote development without damaging the environment.

⁷⁷ Mari Pangestu, Sjamsu Rahardja, and Lili Yan Ing, "Fifty Years of Trade Policy in Indonesia: New World Trade, Old Treatments," *Bulletin of Indonesian Economic Studies* 51, no. 2 (May 4, 2015): 239–61, <https://doi.org/10.1080/00074918.2015.1061915>, p. 254.

⁷⁸ Indonesia Minister of National Development Planning, "The Strategic Plan of the Ministry of National Development Planning/National Development Planning Agency of 2015 – 2019 (RPJMN)" (Jakarta: Indonesia Minister of National Development Planning, 2017), pp. 6-44.

⁷⁹ UNDP, "Converging Development Agendas: Nawa Cita, RPJMN and SDGs," UNDP Indonesia, November 5, 2015, <https://www.id.undp.org/content/indonesia/en/home/library/sustainable-development-goals/converging-development-agendas-nawa-cita-rpjmnd-and-sdgs.html>, p. 9.

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The Indonesian government has set development goals, and the results will be measured by growing of the economy rate in 2019 from 5.1% to 8.0%.

Table 3-2. RPJMN 2015–2019 Macro Development Targets

RPJMN 2015–2019 Macro Development Targets		
Indicator	2014 (baseline)	2019
Social development targets		
Human development index	73.83	76.3
Community development index ⁸⁰	0.55	Increase
Gini index	0.41	0.36
Increased % of community who participate in health insurance programme through SJSN health sector	51.8% (Oct 2014)	Min 95%
Participate in SJSN project – labor sector		
- Formal worker	29.5 million	62.4 million
- Informal worker	1.3 million	3.5 million
Macro-economic targets		
Economic growth	5.1%	8.0%
- GDP per capita (Rp. thousand) base year 2010	43.403	72.217
Inflation	8.4%	3.5%
Poverty rate	10.96% ⁸¹	7.0–8.0%
Open unemployment rate	5.94%	4.0–5.0%

Source: Data from Republic of Indonesia and The United Nations: System in Indonesia Government – United Nations Partnership for Development Framework (UNPDF) 2016–2020. Draft 06 May 2015, pp. 8-9.

In addition, the 2015-2019 National Medium-Term Development Plan (RPJMN) attaches great importance to infrastructure development and financing, including obtaining affordable housing, integrated tourism infrastructure, innovation in infrastructure financing through Private Public Partnership (PPP), and improving water management, irrigation, and food security. Food security is prioritized with a focus on modernizing irrigation infrastructure, rehabilitating 3 million hectares of irrigation channels and constructing 1 million new hectares of irrigation channels.⁸²

⁸⁰ Community development index is a composite index that measures the nature of cooperation in community, tolerance and security sense in community.

⁸¹ Poverty rate in September 2014, prior to the announcement of the policy to eliminate the fuel subsidy that took place in November 2014.

⁸² The World Bank, “Country Partnership Framework for The Republic of Indonesia 2016-2020” (The World Bank Group, November 3, 2015),

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The National Medium-Term Development Plan (RPJMN) and Nawa Cita are attached to the Master Plan for Accelerating and Expanding Indonesia's Economic Development Plan (MP3EI). This plan has the spirit of not doing business as usual. As an integral part of the development plans to accelerate economic development and modernization, MP3EI, a working document created during President Yudhoyono's administration, comprehends several ambitious targets over its 15-year time frame (2010-2025).⁸³ Indonesia's goal is to achieve its status as one of the developed countries in the world by 2025, with an estimated per capita income of 14,250 USD and 15,500 USD and a total GDP of 4.04.5 trillion USD. In order to achieve the above goals, the actual economic growth from 2011 to 2014 is expected to be 6.4-7.5%. MP3EI's development plan focuses on eight major projects around the development of agriculture, mining, energy, industry, shipping, tourism, telecommunications, and strategic areas.⁸⁴

There are three main strategies for the operational process of MP3EI:

1. Improving six economic growth corridors: Java, Sumatera, Kalimantan, Sulawesi, Maluku-Papua and Bali-Nusa Tenggara
2. Strengthening local, national, and international connectivity
3. Strengthening human resources and national science & technology capabilities

Through the improvement of economic regions and connecting them, the Indonesian government believes that it will improve the overall economic acceleration throughout Indonesia. In this plan, the economic potential will be targeted with six main areas: supporting infrastructures like seaports, airports and power supply, suggested 'Special Economic Zones' (SEZ) connectors, main connectivity, supporting connectivity and economic growth center.

<http://documents1.worldbank.org/curated/en/195141467986374707/pdf/99172-REVISED-World-Bank-Indonesia-Country-Partnership-Framework-2016-2020.pdf>, p. 56.

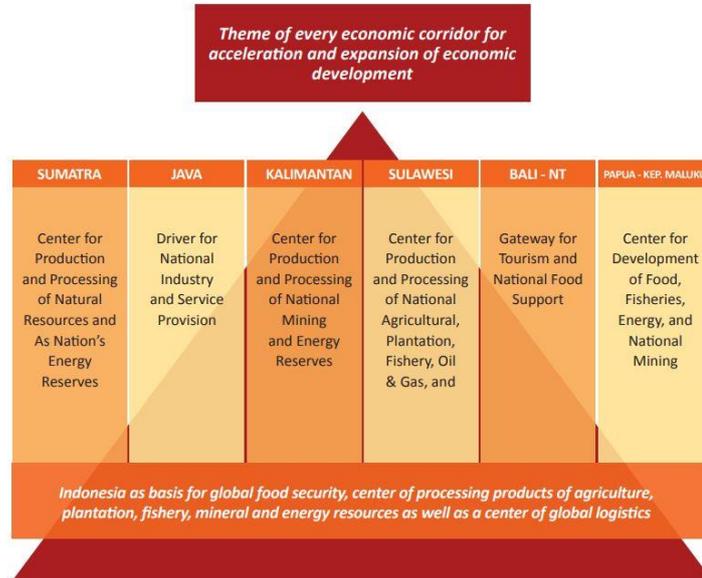
⁸³ Oxford Business Group, "Government Master Plan for Indonesia's Industry," Oxford Business Group, July 13, 2015, <https://oxfordbusinessgroup.com/analysis/government-master-plan-indonesias-industry>.

⁸⁴ Coordinating Ministry for Economic Affairs, Republic of Indonesia, "Master Plan Acceleration and Expansion of Indonesia Economic Development 2011-2025", p. 54.

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To assign a specialization to each region, the Indonesian government has divided them into different themes, as seen in figure 3-5 below.

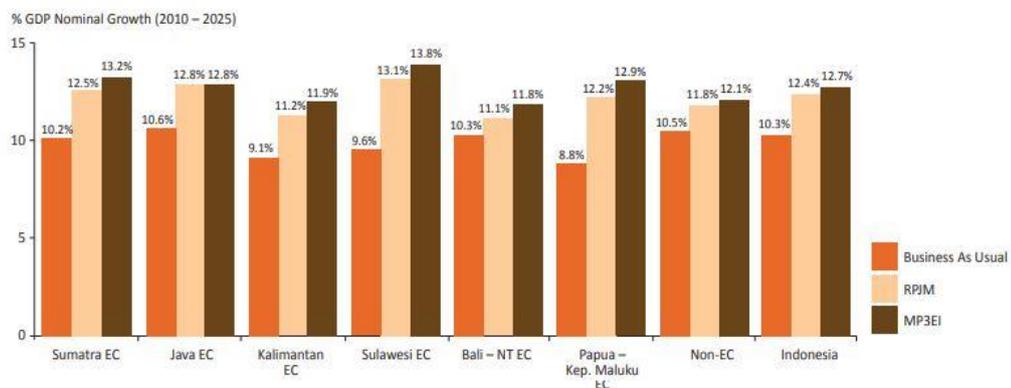
Figure 3-5. Theme of Indonesia Six Economic Corridors



Source: Data from Indonesia Coordinating Ministry for Economic Affairs, Republic of Indonesia: *The Master Plan Acceleration and Expansion of Indonesia Economic Development 2011-2025*, 47.

Palm Oil is one of the top reliance sectors in Sumatra and Sulawesi, while Papua and Maluku are prepared to be the food barn of Indonesia. These economic clusters suggested by the government will increase Indonesia's economic growth to become the 9th largest economy in the world with the analysis that there will be further economic development in each province shown by figure 3-6.

Figure 3-6. Annual Growth target for the Six Economic Corridors in Year 2025



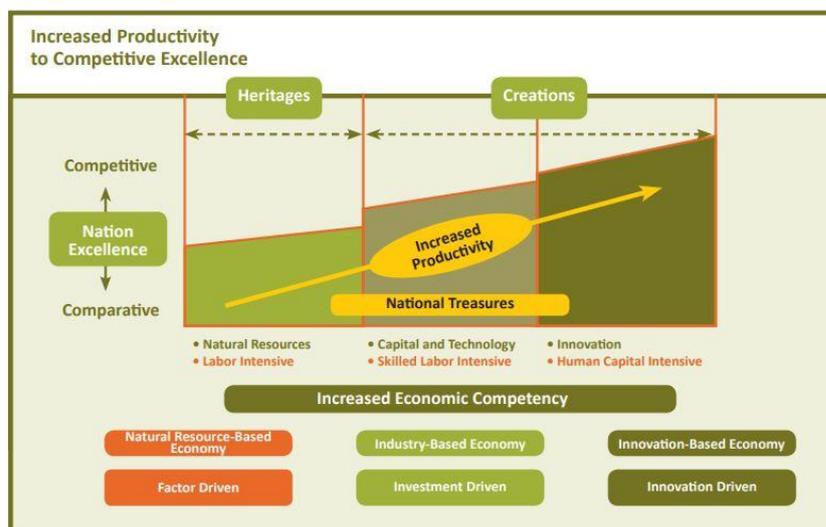
Source: *The Master Plan Acceleration and Expansion of Indonesia Economic Development 2011-2025*, 48.

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Within the area of connectivity, the government of Indonesia divides the strategy into three levels of connectivity, namely Intra economic corridor connectivity, an inter-economic corridor of connectivity and international trade logistic which can be seen in the Master Plan for Accelerating and Expanding Indonesia's Economic Development Plan (MP3EI) document.

The third main strategy as the final large goal of the MP3EI program is strengthening human resources and national science & technology capabilities to ensure the continuity of economic development. Science and technology will increase innovation and competitiveness. Figure 3-7 shows the strategy below:

Figure 3-7. Strategy towards Competitive Excellence



Source: *The Master Plan Acceleration and Expansion of Indonesia Economic Development 2011-2025, 41.*

From an economy based on natural resources will gradually transform to an economy based on innovation. The labor-intensive natural resource-based economic legacy needs to be upgraded to a highly skilled labor-intensive economy. As Indonesia enters the stage of an innovation-driven economy, there is an urgent need to improve human capital to master science and technology.

President Joko Widodo through his Nawa Cita in synergy with the Master Plan for Accelerating and Expanding Indonesia's Economic Development Plan (MP3EI) plan has implemented one of the major plans of upgrading infrastructures to close the development gap between the west and east, rural and urban areas of Indonesia, and to connect the scattered islands of Indonesia. Total government infrastructure spent in Indonesia increased by a substantial 51% from IDR 139 trn (USD 11.7bn)

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in 2014 to IDR 209trn (USD 15.5bn) in 2015, although it was below the 63% budget planned. With the increase of the infrastructures, on the private side, Foreign Direct Investment has also increased. In total, Foreign Direct Investment (FDI) reached USD 29.27bn in 2015, a 2.6% rise from USD 28.53bn in 2014. The government expects to continue for the social infrastructure such as hospitals and schools. These two sectors remain a high priority for the government to improve Indonesia's human capital.⁸⁵ This plan is being agreed by the world bank, that Indonesia's evolving economy will need new skills to support growth because human capital is a major obstacle to developing a vibrant Indonesian manufacturing sector. According to the World Bank reports, 84 percent of manufacturing employers have difficulties in leadership positions and 69 percent in other expert workers.⁸⁶

Indonesia has clearly committed to education as a development priority by passing a constitutional mandate to allocate 20 percent of the total government budget to education for its quality, access and equity. The quality of education remains low and unevenly distributed across the regions, and access to post-basic education is still low in rural areas.⁸⁷

When we see the data on public spending on education of the Indonesian government, there was an increase from 0.87 % in 1989 to 3.58 % in 2015 which is still relatively low compared to the world average based on 105 countries in 2015 4.70%.⁸⁸ Assuming that the government continues to spend about 3 percent of GDP a year on public education, there could be a gap of 8 billion USD a year by 2030, given the expected total demand for education.⁸⁹

⁸⁵ Julian Smith and Rizal Satar, "Indonesian Infrastructure Stable Foundations for Growth," PwC Indonesia, 2016, <https://www.pwc.com/id/en/capital-projects-infrastructure/capital-project-service/indonesian-infrastructure-stable-foundations-for-growth.pdf>.

⁸⁶ Emanuela di Gropello, Aurelien Kruse, and Prateek Tandon, *Skills for the Labor Market in Indonesia: Trends in Demand, Gaps, and Supply* (Washington DC: The World Bank, 2011), <https://ideas.repec.org/b/wbk/wbpubs/2282.html>.

⁸⁷ The World Bank, "Spending More or Spending Better: Improving Education Financing in Indonesia," World Bank, March 15, 2013, <https://www.worldbank.org/en/news/press-release/2013/03/14/spending-more-or-spending-better-improving-education-financing-in-indonesia>, p. 11.

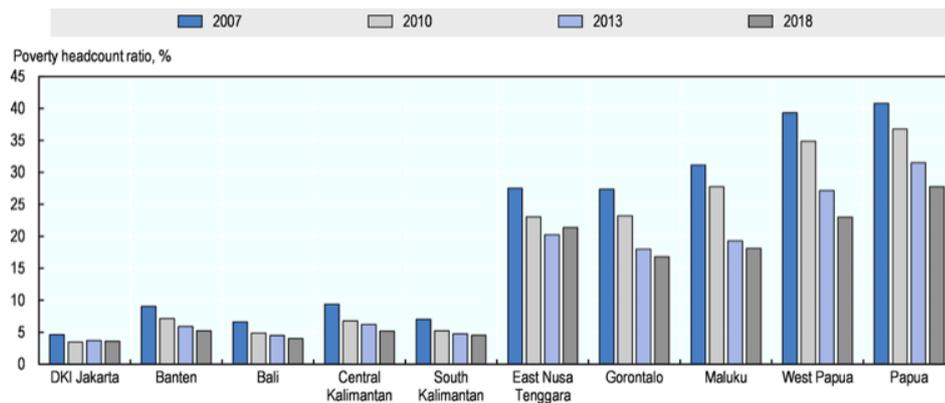
⁸⁸ The Global Economy, "Indonesia Education Spending, Percent of GDP from 1972-2015," TheGlobalEconomy.com, 2020, https://www.theglobaleconomy.com/Indonesia/Education_spending/.

⁸⁹ Raoul Oberman et al., *The Archipelago Economy: Unleashing Indonesia's Potential* (London: McKinsey Global Institute, 2012).

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Indonesia has achieved great political and economic progress in these two decades, however, there is a failure of its economic development to benefit the whole population, leaving inequality rising and a large proportion of the population remaining poor and vulnerable. In the development and economic plan, there is a strategy to improve regions by strengthening the six corridors. Still, there is no adequate analysis or direct strategies of how to alleviate poverty. Leaving this issue remains an ingrained problem. President Jokowi has been distributing cash and non-cash benefits for health and food to eradicate poverty in remote and urban areas, but poverty remains a challenge. In September 2018, the poverty rate was 9.66%, which means 25 million people live below the poverty line.⁹⁰ In comparison to table 3-8 about the economic plan in the six corridors, this table presents the poverty condition in some provinces in Indonesia.

Figure 3-8. Poverty Rates in the poorest and Least-Poor Provinces in Indonesia



Source: Data from OECD, "Social Protection System Review of Indonesia," April 11, 2019, https://www.oecd-ilibrary.org/development/social-protection-system-review-of-indonesia_788e9d71-en.

The five poorest provinces are in the east, including West Papua and Papua, although they are much less populated, with the gap almost 25 percent with Jakarta. Eighteen percentage points higher than the average for the five least-poor provinces as shown in Figure 3-8. The gap between Jakarta and Papua (the least-poor and poorest provinces) in 2018 was closed to 25 percentage points. Village Funds

⁹⁰ Raharjo Jati, "It's Okay to Be Poor?: Why Fighting Poverty Remains Challenging in Indonesia," The Jakarta Post, August 20, 2019, <https://www.thejakartapost.com/academia/2019/08/20/its-okay-to-be-poor-why-fighting-poverty-remains-challenging-in-indonesia.html>.

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represent a mechanism for reducing poverty in rural areas, including expanding Palm Oil to West Papua and Papua provinces.

Another social indicator concerning food scarcity and food security, Indonesia is ranked 72nd of 109 countries⁹¹ and in 2013, Indonesia had a Human Development Index (HDI) value of 0.684, ranks 108 out of 187 countries.⁹²

Indonesia does not spend enough on health care. Although government health expenditure has increased in recent years, total health expenditure has remained under 3% of GDP. Among Association of Southeast Asian Nations (ASEAN) countries, only Myanmar spends less on health than Indonesia.⁹³

Indonesia has an enormous promise in its economy, according to a Mc. Kinsey trend analysis, from the 16th-largest economy in the world, Indonesia has the potential to be the 7th-biggest in the world in the next ten years.⁹⁴ However, there are at least some major challenges: labor productivity, uneven distribution of growth among regions, and economic inequality. When we look back to the share Gross Domestic Product (GDP), we assume that Indonesia is a commodity exporter of natural resources and agriculture, but manufacturing and services contribute a lot to its GDP.

Nevertheless, in the reality, Indonesia is still very reliant on natural resources, having five top exports, palm oil being the second most important after coal. According to the development plan, Indonesia still focuses more on economic growth. Social situation, cultural development, human rights and environmental situation are still less considered, which in the long run will create conflicts in Indonesia.

⁹¹ The Economist, "Global Food Security Index (GFSI)," Global Food Security Index, 2020, <http://foodsecurityindex.eiu.com/>.

⁹² UNDP, "Human Development Index and Its Components," HDR UNDP, 2019, <http://hdr.undp.org/en/content/table-1-human-development-index-and-its-components-1>.

⁹³ OECD, "Southeast Asian Economic Outlook 2013: With Perspectives on China and India," OECD, 2013, <https://www.oecd.org/dev/asia-pacific/saeo2013.htm>, p. 18.

⁹⁴ Oberman et al., *The Archipelago Economy: Unleashing Indonesia's Potential*, pp. 3-4.

3.4. History and Economic Relevance of Palm Oil Proliferation in Indonesia

1. Colonial Times: 1948-1945

The introduction of palm oil to Southeast Asia began in 1848 when the Dutch planted four seedlings in the Buitenzorg Botanical Garden, today, Bogor, Indonesia, two of which came from the Amsterdam Botanical Garden and two from the Bourbon Island. Six years after that, the first Malaysian oil palm plantation was established in Kuala Selangor Malaysia using Deli origin seedlings.⁹⁵ The first large-scale plantation was launched in 1911 in the Deli province in Sumatera by a Belgian plantation entrepreneur Adrien Hallet with planted areas that reached 110,000 ha after discovered that oil palms planted in Sumatera were more productive than in Africa.⁹⁶ With the new technology, Hallet established successfully the forerunner to Socfin, now a major global palm oil company. As early as 1920, a Dutch scientist working in Sumatra stated presciently that “the yield of palm oil in this region well exceeds that achieved in Africa—I confidently leave to the heads of the great plantation companies the task of proving that Asia can rival Africa in this product.”⁹⁷

Between 1916-1938, oil palm plantations expanded by 91,000 ha at about the same rate as rubber tree plantations, supported by much research undertaken on the improvement of this crop. The proliferation of palm oil increased when the Dutch government imposed the Agrarian Law (1870) that declared that all land without proof of ownership was the state's property. This law was the beginning of the colonial plantations' expansion in Indonesia. The government of Indonesia still use this agrarian law up to date.⁹⁸ The customary claims were not recognized over non-

⁹⁵ K. P Prabhakaran Nair, *The Agronomy and Economy of Important Tree Crops of the Developing World* (London: Elsevier Science Limited, 2010), <http://www.sciencedirect.com/science/book/9780123846778>, p. 219.

⁹⁶ Paul H Kratoska, *South East Asia, Colonial History: High Imperialism (1890s-1930s)* (London: Routledge, 2001), p. 40.

⁹⁷ Prabhakaran Nair, *The Agronomy and Economy of Important Tree Crops of the Developing World*, p. 212.

⁹⁸ Laurio Leonard and Dominic Rowland, “Drivers and Effects of Agrarian Change in Kapuas Hulu Regency, West Kalimantan, Indonesia,” in *Agrarian Change in Tropical Landscape*, ed. Deakin, E.L.; Kshatriya, M.; Sunderland, T.C.H (Bogor, Indonesia: CIFOR, 2016), <https://doi.org/10.17528/cifor/005867>, p. 28.

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cultivated lands, such as forests, which were considered ‘empty lands’ became government ownership. The government either developed the land with state enterprises or issued concession permits to private companies. Soon, these plantations faced labor shortages and forced labour through the “Kolonisatie” program in 1905, when landless people from Java resorted to less populated outer islands of Borneo and Sumatra. This Kolonisatie program was renamed the transmigration program after independence. This program was perceived as a moral duty to alleviate poverty and secure the food production in Java, not procured labor for dutch plantations, which was criticized.⁹⁹

During the Japanese occupation in the second world war 1942-1945, the plantation sector was generally neglected: the trees were undernourished and decaying, resulting in enormous productivity deterioration due to their priority to the war and to supplying food to its army.

2. Old Order: 1945-1966

Indonesia inherited the oil-palm estate sector from the Dutch. Still, after the independence, there was only slow growth in palm oil development in Indonesia both in yield and area of plantation. There were only 110,000 hectares of palm oil plantation. The perception that the estate sector was exploitative and a legacy of colonialism discouraged state facilitation, although the new government could see that estate crops had the potential to contribute to economic growth. In 1960, after the estates were nationalized, there was limited knowledge transfer from the colony and a lack of investment at the same time, resulting in deteriorating management of the plantation. Revitalising the oil palm plantation sector by the government was not the priority. During this period, the government issued regulations which decreased private capital presence.¹⁰⁰

⁹⁹ Alice Baudoin et al., *Review of the Diversity of Palm Oil Production Systems in Indonesia: Case Study of Two Provinces: Riau and Jambi* (Bogor: CIFOR, 2017), <https://doi.org/10.17528/cifor/006462>, p. 2.

¹⁰⁰ Eusebius Pantja Pramudya, Otto Hospes, and C. J. A. M. Termeer, “Governing the Palm-Oil Sector through Finance: The Changing Roles of the Indonesian State,” *Bulletin of Indonesian Economic Studies* 53, no. 1 (January 2, 2017): 57–82, <https://doi.org/10.1080/00074918.2016.1228829>, pp. 65-66.

3. The New Order: 1967-1998

In 1967, General Soeharto became the new president of Indonesia and established the New Order regime. Backed by military domination that suppressed social turmoil, this regime installed technocrats to steer development and the massive aid flows from Western nations. Using the 5-years plan for economic development, the government implemented the green revolution in 1983 and used a transmigration program to achieve rice self-sufficiency. The big rice cultivation projects in Kalimantan and Sumatera were started, but unfortunately suffered from a lack of funding. Due to these unsuccessful projects, the government switched the focus to palm oil plantation. It soon became a major vector for developing rural areas and lands with the help of the transmigrants.¹⁰¹ Palm oil is no longer regarded as a colonial product, but as a strategic asset for earning foreign exchange, creating jobs, accelerating growth in underdeveloped regions, and ensuring domestic edible oil supply. This development of the palm oil sector was entrusted to the Department of Immigration. In addition, in 1967, the state provided low-interest loans to state-owned enterprises supported by World Bank loans for financial aid. In 1972, a similar approach was used to improve private companies and five years later the government launched a credit scheme to facilitate economic benefits to local communities and smallholders.¹⁰²

Since the beginning of the new order, there have been two general trends in palm oil production and oil palm plantations in Indonesia. The planting area increased from 100,000 hectares in 1951-60 to 1 million hectares in the late 1980s. After independence, the annual output was only 150,000 tons and increased to 30 million tons in the mid-2010s. In the early stages, the expansion of oil palm cultivation was spearheaded by a public company called *Perusahaan Negara Perkebunan* (PNP). In the 1970s, this company was turned into *Perseroan Terbatas Perkebunan* (PTP), supported by loans from the World Bank and managed most of the oil palm acreage. During this period, the state initiated a plan to include smallholder farmers in the palm oil industry, called the Nucleus Estate and Smallholders (Perkebunan Inti

¹⁰¹ Zen, Barlow, and Gondowarsito, "Oil Palm in Indonesian Socio-Economic Improvement A Review of Options," pp. 2-3.

¹⁰² Schleicher et al., "Production of Palm Oil in Indonesia", pp. 29-31.

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Rakyat or PIR) plan, which was also supported by the World Bank and was launched in 1978. The nucleus refers to the company's core plantation, and the "plasma" refers to the small farmers under various cooperation agreements. Usually, they are allocated an oil palm area of two hectares.¹⁰³

However, during 1989-1990, the state-owned plantations were overtaken by the private sector called *Perkebunan Besar Swasta* (PBS). The government shifted away gradually in funding the public companies to granted large concessions to the private. The policy was to encourage greater involvement by the private sector, and both Indonesian and foreign, mostly Malaysian and Singaporean companies, to invest heavily in the industry. The state continued to fund infrastructure and provide land concessions and cheap credits to both companies and smallholders.¹⁰⁴

Since then, private plantations and smallholder cultivation have expanded exponentially and in 2008 nearly 53% of the Indonesian oil palms were managed by private companies.¹⁰⁵

It was only in 1980 that the Indonesian government made the first move to integrate the community into the oil palm plantation namely Nucleus Estates and Smallholders (NES) through transmigration managed by a para-statal company.¹⁰⁶ The smallholders tend to be bound by agreements to sell their produce to a single mill.¹⁰⁷ In the mid-1980s, the governmental role in these schemes decreased, and private companies were encouraged to become more involved.

The Prime Cooperative Credit for Member or *Koperasi Kredit Primer Anggota* (KKPA) program in the 1990s introduced a new decentralized governance system in which farmers' organizations were responsible for coordinating smallholder plantations. The plan allows local cooperatives to borrow up to 50 million rupiah (4,500 euros) for the development of small businesses. In 1999, *Pola Kemitraan* or

¹⁰³ Baudoin et al., *Review of the Diversity of Palm Oil Production Systems in Indonesia*, pp. 2-4.

¹⁰⁴ Prabhakaran Nair, *The Agronomy and Economy of Important Tree Crops of the Developing World*, p. 212.

¹⁰⁵ Schleicher et al., "Production of Palm Oil in Indonesia", pp. 29-30.

¹⁰⁶ Asly Hanu, *Market Transformation by Oil Palm Smallholders* (Bogor, Indonesia: SPKS, 2013), p. 15.

¹⁰⁷ Marti Serge, *Losing Ground: The Human Rights Impacts of Oil Palm Plantation Expansion in Indonesia* (England: Friends of the Earth, LifeMosaic and Sawit Watch, 2008), <https://www.foei.org/wp-content/uploads/2014/08/losingground.pdf>, p. 60.

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partnership introduced a new model of cooperation, including a shareholder model, which may lead to reduced autonomy for smallholders in plantation management. The most recent models have a private sector focus and include replanting efforts.¹⁰⁸ Although the schemes have different names, they have roughly similar characteristics. Local communities and indigenous people relinquish a larger area of land in exchange for a two-hectare plot of oil palm – known as a ,kapling.’¹⁰⁹ In most schemes, local people handed over 7.5 to eight hectares of land to the company and received two hectares in return.¹¹⁰ Companies initially establish both the company-run plantation nucleus and the smallholdings, and invest the initial capital outlay for plantation establishment, fertilizers, pesticides, and technical assistance. Smallholders are then required to pay for these goods and services and in doing so incur the debt with the company, which must be repaid with interest. Some people have suggested that smallholder schemes are formed as a way for companies to procure people’s land and access cheap credit in the community’s name.¹¹¹ Smallholders in all schemes report an abiding set of difficulties, such as long delays of up to eight years, in receiving allotted land, the seeds are different, traditional intercropping disallowed, decision-making is in the hands of the company, as is land allocations and prices for Fresh Fruit Bunch (FFB).

Although considered successful, the Nucleus Estates and Smallholders (NES) program was increasingly criticised. The expansion of land ownership to remote areas has led to environmental changes and the marginalization of indigenous populations. The Ministry of Forestry and Crops estimated that between 1982 and 1999, 4.1 million hectares of forest were converted into plantations. Nucleus Estates and Smallholders (NES) loans include environmental review in its requirements, and the World Bank, as the main financing party, requires NES loans to meet its environmental standards. Unfortunately, the World Bank did not integrate

¹⁰⁸ Sonja Vermeulen and Nathalie Goad, “Towards Better Practice in Smallholder Palm Oil Production,” *IIED*, Natural Resource Issues 5, November 2006, <https://pubs.iied.org/13533IIED/>, p. 20.

¹⁰⁹ Eric Wakker, *Greasy Palms: The Social and Ecological Impacts of Large-Scale Oil Palm Plantation Development in Southeast Asia* (England: Friends of the Earth, January 2005), p. 34.

¹¹⁰ Marcus Colchester, *Promised Land: Palm Oil and Land Acquisition in Indonesia: Implications for Local Communities and Indigenous Peoples* (Bogor: Perkumpulan Sawit Watch, 2006), p. 14.

¹¹¹ Wakker, *Greasy Palms: The Social and Ecological Impacts of Large-Scale Oil Palm Plantation Development in Southeast Asia*, p. 34.

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environmental protection in its monitoring system. Therefore, unclear land rules and lack of consultation with local communities have led to social conflicts. Small farmers have little room for bargaining because they are obliged to sell fruit to specific factories or mills. They are trapped in a monopsonistic market. The new order represents a period when the government is unwaveringly committed to developing the palm oil industry in Indonesia. Though unclear regulation, the lack of commitment of cooperatives towards farmers, and corruption threaten Indonesia's economic stability. Indonesia was one of the countries most impacted by the Asian economic crisis of 1998, with the economy shrinking by an extraordinary 13.6% in that year. This situation is partly due to the ubiquitous corruption under the Suharto regime that led companies to assume excessive foreign currency debt and avoid accounting transparency.¹¹² Companies were forced to lower their targets in terms of new concessions and planting areas. Smallholders during the inflation were forced to extend their land into the forest to increase their incomes.

In addition, the El Niño drought exacerbated the crisis, and rising operating supply costs led to a decline in palm oil productivity. Due to the increase in production costs, the planting rate in 1999 was 33% lower than that in 1997. The world market price of crude palm oil fell during the crisis, competing with Brazilian soybean oil. The local market, exports and the palm oil sector, have suffered huge losses due to this economic crisis.¹¹³

5. The Reformation Era: 1998 to 2007

In the early 2000s, the palm oil industry expanded rapidly in response to global demand, mainly from China. The expansion reached the peatlands where burning was the easiest way to clear land. The massive expansion occurred during the fundamental change from a centralized to decentralized Indonesian state. With the ratification of laws number 22 and 25 regarding decentralization, regional authorities as districts and municipalities have the autonomy to manage their

¹¹² A. Casson, "The Hesitant Boom: Indonesia's Oil Palm Sub-Sector in an Era of Economic Crisis and Political Change" (Indonesia: CIFOR, 2000), <https://doi.org/10.17528/cifor/000625>.

¹¹³ Baudoin et al., *Review of the Diversity of Palm Oil Production Systems in Indonesia*, pp. 3-4.

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resources and to increase their tax revenues from the resources. Decentralization made it easier for palm-oil private companies to acquire forest and peatland areas without following statutory procedures; in return, the companies funded political campaigns in many regions. Smallholder's estates grew at the same pace as company plantations, even though they did not have adequate access to financing. The decentralization policy, land grabbing, deforestation and fire resulted in the state facing problems in balancing economic development, social equity and ecological protection. This led to pressure from national and international organizations and demand for more sustainable practices. Thanks to the democratic post-reformation, social movements, and NGOs, strongly criticized the government and resulted in the Amendment to the Indonesian Constitution which put sustainable development on the national agenda in 1999.¹¹⁴ At the global level, the RSPO was created and at national level, the government developed the Indonesian Sustainable Palm Oil (ISPO).

The reformation era is also called the 'laissez-faire' era, marked by the withdrawal of the government from dictating or influencing business strategies. The government moved away from controlling the organization of companies, providing them with funds, land grants, and regulating exchange rates.

The palm-oil sector was very important to Indonesia's economy after the reformation era. In 2007, it contributed 6% of Indonesian GDP and 80% of Indonesia's estate-crop exports; it also employed 13.4 million people on estates and 3.2 million people in the processing industry, increasing household and rural incomes. The government of Indonesia still supported replanting and plantation on degraded land and organized International Economics and Finances' finance (IECF) in 2014 scheme to address price decline and sustainability. However, the government's priorities are still economic development. The sustainability agenda used to prepare the industry to meet the sustainability standards demanded by the global market.¹¹⁵

In summary, we can see the priority of the Indonesian government regarding palm oil proliferation in Indonesia by period in Table 3-3 below:

¹¹⁴ Pramudya, Hospes, and Termeer, "Governing the Palm-Oil Sector through Finance," p.73.

¹¹⁵ Ibid, p.73.

Table 3-3. Priorities of the Indonesian State in Governing the Palm-Oil Sector

Period	Priority
Old Order or post-independence era (1945-1967)	Social equity or anti-economic development
The New Order or Soeharto's interventionist state (1967–1990)	Economic development & social equity (inclusion of smallholders); limited attention to environmental protection (accepting World Bank's environmental standard)
Economic liberalisation (1990–1997)	Economic development; preventing total economic collapse
Financial crisis & aftermath (1997–2006)	Economic development; limited attention to social equity & environmental protection
Economic revitalisation (2006–)	Economic development; preparing palm- oil producers for sustainability demands from the market

Source: Data from Eusebius Pantja Pramudya, Otto Hospes, and C. J. A. M. Termeer, "Governing the Palm-Oil Sector through Finance: The Changing Roles of the Indonesian State," *Bulletin of Indonesian Economic Studies* 53, no. 1 (January 2, 2017): 57–82, <https://doi.org/10.1080/00074918.2016.1228829>, p. 73.

3.5. Current Palm Oil Condition in Indonesia

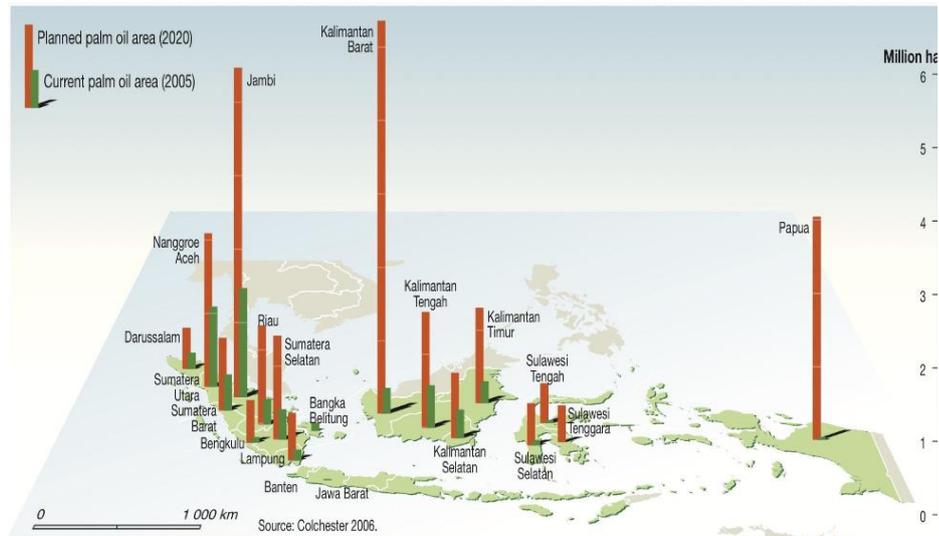
Palm oil is one of the most important raw materials for the Indonesian economy. In recent decades, the palm oil plantation in Indonesia has expanded. As a result, Indonesia has become the largest producer and exporter of palm oil in the global market. Together with Malaysia accounts for 90 percent of all global exports of palm oil, forming one of the largest agricultural clusters in the world.¹¹⁶ Due to its big contribution to Indonesia's economy, the government has set 40 million tons crude palm oil (CPO) production target by 2020.¹¹⁷ To achieve this plan, as shown in figure 3-9, in 15 years there will be a continuous extension of palm oil plantations in Indonesia targeted Jambi, North Kalimantan, and Papua.

¹¹⁶ Valeria Giacomini, "The Emergence of an Export Cluster: Traders and Palm Oil in Early Twentieth-Century Southeast Asia," *Enterprise & Society* 19, no. 2 (June 2018): 272–308, <https://doi.org/10.1017/eso.2017.10>, pp.272-274.

¹¹⁷ Hanu, *Market Transformation by Oil Palm Smallholders*, p.15.

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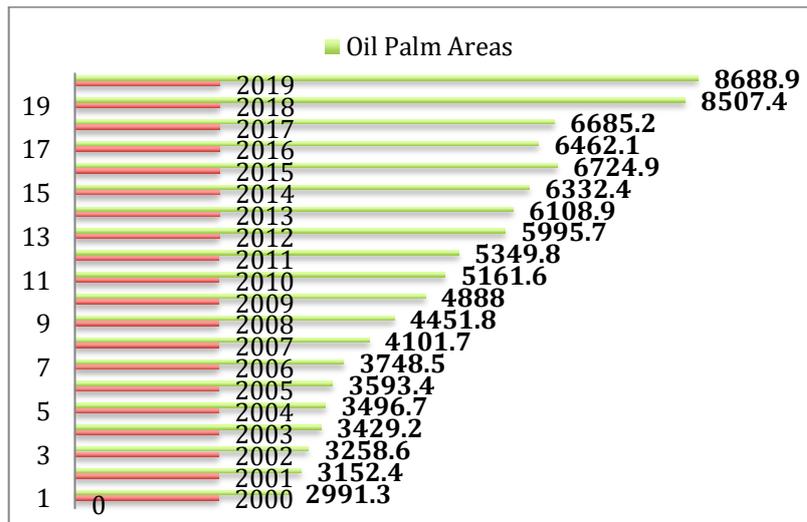
Figure 3-9. Current and Planned Palm Oil Area in Indonesia



Source: Data from Marcus Colchester. *Promised Land: Palm Oil and Land Acquisition in Indonesia: Implications for Local Communities and Indigenous Peoples.* Perkumpulan Sawit Watch, 2006, 28.

Oil palm plantations in Indonesia have become increasing significant for the last three decades. According to Statistic Indonesia, 2.9 million hectares of oil palm plantations in 2000, have increased three-fold to more than 8,6 million hectares in 2019 as shown in figure 3-10, Indonesia Palm Oil 2000-2019, an expansion triggered by the increase of world palm oil demand.

Figure 3-10. Indonesia Palm Oil 2000-2019 (Thousand Hectares)

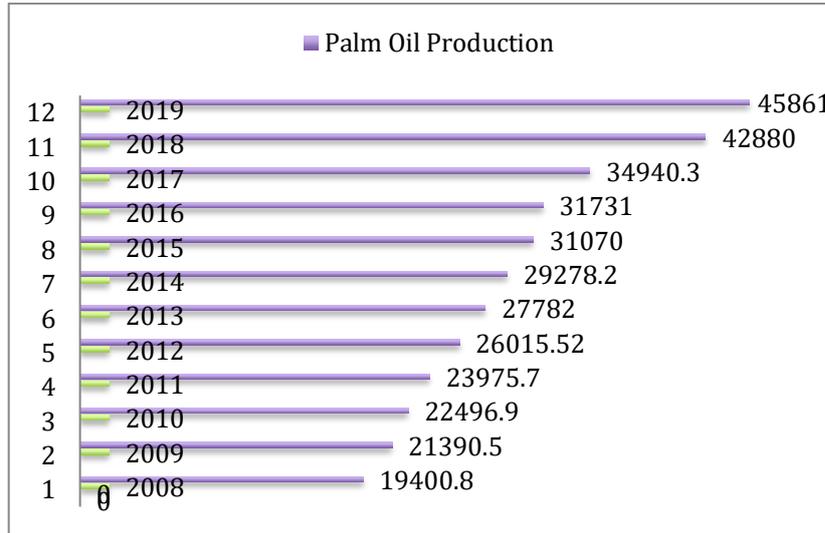


Source: Data from Statistics Indonesia, BPS RI, 2019, available access on 08.10.2020 in official website <https://www.bps.go.id>.

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With the expansion of palm oil in Indonesia, the production has increased from 19.4 million tons in 2008 to 45.8 million tons in 2019 as shown by figure 3-11. Since 2011 Indonesia has become the biggest producer of crude palm oil (CPO) in the global market taken over Malaysia.

Figure 3-11. Palm Oil Production (Thousand Tons)



Source: Data from Statistics Indonesia, BPS RI, 2019, available access on 08.10.2020 in official website <https://www.bps.go.id>.

This proliferation is closely related to the growing demand for food and energy, domestically and globally.¹¹⁸ In response to the rising demand, the Indonesian government has encouraged investment in the industry. However, in Indonesia, the increase in production is mainly achieved by expanding palm oil planting area rather than increasing production. The Indonesian government set a production and productivity target called ‘Vision 35:26’ to increase CPO by 40 million to solve this problem. The government supports the private sector through incentives and a partnership model for smallholder farmers.¹¹⁹

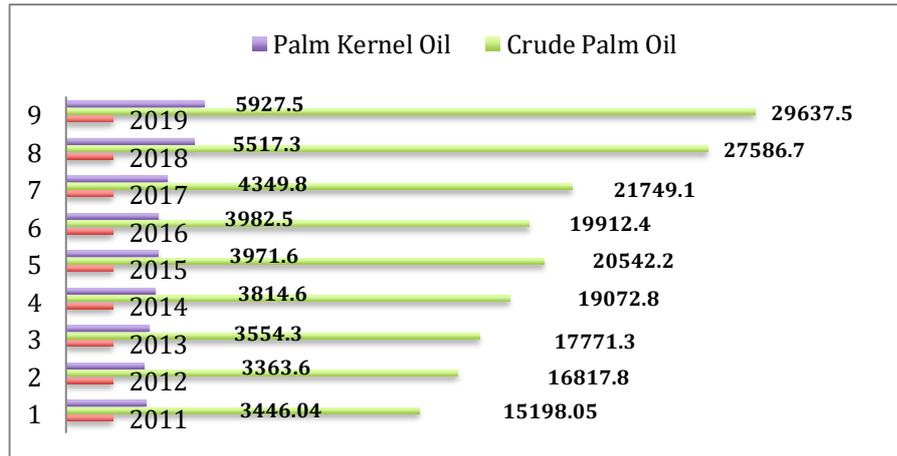
¹¹⁸ Krystof Obidzinski et al., “Environmental and Social Impacts of Oil Palm Plantations and Their Implications for Biofuel Production in Indonesia,” *Ecology and Society* 17, no. 1 (March 16, 2012), <https://doi.org/10.5751/ES-04775-170125>, p. 2.

¹¹⁹ Herry Purnomo et al., “Reconciling Oil Palm Economic Development and Environmental Conservation in Indonesia: A Value Chain Dynamic Approach,” *Forest Policy and Economics* 111 (February 1, 2020): 102089, <https://doi.org/10.1016/j.forpol.2020.102089>, p. 2.

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Palm oil occurs in two main products: Crude Palm Oil (CPO) and Palm Kernel Oil (PKO). CPO is mainly used for the food industry, detergent, and oleo- chemical plant, while PKO is mainly used for the chemical and animal feed industry. Figure 3-12 shows the production of both Crude Palm Oil (CPO) and Palm Kernel Oil (PKO) in Indonesia.

Figure 3-12. Indonesian Palm Oil Production PKO and CPO in Tons



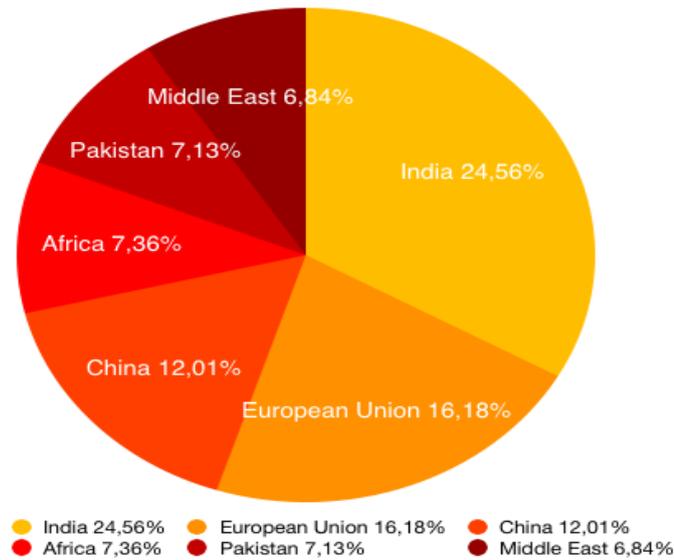
Source: Data from Statistics Indonesia, BPS RI, 2019, available access on 08.10.2020 in official website <https://www.bps.go.id>.

Stability and tend to increase CPO price in the domestic and global market make this agriculture crop the most favorite crop in Indonesia and Malaysia. Among the factors that influenced the price were higher exports of palm oil products, lower CPO inventory, lower palm oil stock, and higher palm oil-blend biodiesel mandate from Malaysia and Indonesia.¹²⁰

As presented in figure 3-13, the major market destination of Indonesian palm oil export are India, European Union and China in the third position about 24,56 %, 16,18 % and 12,01%, respectively. The share of India and China in total Indonesian palm oil export increased mainly because of economic growth of these two countries.

¹²⁰ Ayisy Yusof, "CPO Price Hits near 3-Year High," NST Online, January 13, 2020, <https://www.nst.com.my/business/2020/01/556125/cpo-price-hits-near-3-year-high>.

Figure 3-13. Indonesia Palm Oil Export 2018



Source: Data from Yoga Rusmana and Eko Listiyorini, “Indonesia Palm Oil Exports to India Seen at Record on Demand”, Bloomberg, February 4, 2018, <https://www.bloomberg.com/news/articles/2018-02-04/indonesia-palm-exports-to-india-seen-at-record-on-strong-demand>. Bloomberg, 2018.

To fulfill the global and domestic demand, the Indonesia government is still focusing on expanding the areas of palm oil plantation across the islands. The following table 3-4 presents the area of palm oil plantation from 2011-2019 by region.

Table 3-4. Plantation Area by Province

Province	Plantation Area by Province (Thousand Hectare)								
	Oil Palm								
	2011	2012	2013	2014	2015	2016	2017	2018	2019
ACEH	360,2	381,49	396,64	420,2	428,2	370,1	440,3	494,2	500,1
SUMATERA UTARA	1164	1222,91	1340,35	1396,3	1427	1342,6	1461,2	1551,6	1601,9
SUMATERA BARAT	370,7	355,9	364,21	376,5	383,4	378,4	397,5	379,6	384,5
RIAU	1919	2139,82	2193,72	2290,7	2400,9	2013,1	2209,6	2706,9	2808,7
JAMBI	647	696,81	657,93	693	714,4	663,5	768	1032,1	1070,7
SUMATERA SELATAN	873,8	898,16	1060,57	923	952,1	901,7	1032,8	1137,6	1178,1
BENGKULU	308,1	290,21	290,63	293,8	288,9	285,1	339,8	311,8	314,5
LAMPUNG	123,4	160,56	158,05	184,9	207,9	199,5	242,3	201,6	203,7
KEP. BANGKA BELITUNG	186,1	190,39	201,09	206,2	211,1	232,2	241,6	224,5	229,6

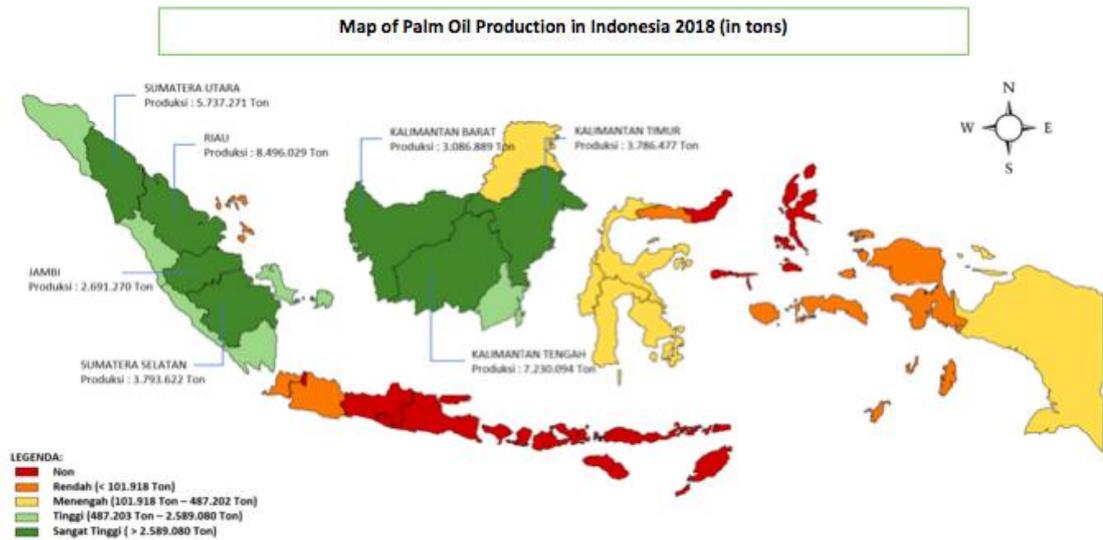
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Province	Plantation Area by Province (Thousand Hectare)								
	Oil Palm								
	2011	2012	2013	2014	2015	2016	2017	2018	2019
KEP. RIAU	8,7	18,98	19,04	19	19	7,4	9,9	7,9	8
JAWA BARAT	14,1	10,88	13,61	13,6	14,1	17,3	16,7	15,7	16
BANTEN	14,8	19,87	20,1	19,7	19,3	19,4	19,8	19,4	19,9
KALIMANTAN BARAT	700,5	897,93	914,84	936,4	1144,2	1264,4	1475,7	1815,1	1864,6
KALIMANTAN TENGAH	1008,4	1126,51	1099,69	1115,9	1142	1288,1	1339	1640,9	1675,8
KALIMANTAN SELATAN	424,8	497,69	475,74	512,9	421,1	553,1	508	542,4	552,6
KALIMANTAN TIMUR	657,3	789,39	714,21	733,4	849,6	1021,3	1078,8	1434,5	1461,2
KALIMANTAN UTARA	-	-	102,05	153,3	157,4	50,3	67,5	155,2	159,4
SULAWESI TENGAH	93,8	142,59	140,88	147,9	151,1	158,2	174,5	134,9	139,1
SULAWESI SELATAN	27,9	32,26	36,26	50,9	51,7	55,7	65	48,8	50,6
SULAWESI TENGGARA	44,8	60,57	45,42	45,2	45,8	69	73,8	74,9	76,6
GORONTALO	-	0	0	4,3	11,1	6	6,8	10	10,4
SULAWESI BARAT	95,2	95,08	96,32	106,4	108,2	150,3	162,4	167,5	173,9
MALUKU	-	15,61	33,98	10,3	10,1	10,1	13,7	11,1	11,4
PAPUA BARAT	20,1	38,98	38,98	49,6	51	59,7	60,3	50,9	52,4
PAPUA	39,5	50,72	50,72	51,4	50,8	85	178,1	157,2	160,9
INDONESIA	9102,3	10133,32	10465,02	10754,8	11260,3	11201,5	12383,1	14326,3	14724,6

Source: Data from Statistics Indonesia, BPS RI, 2019, available access on 08.10.2020 in official website <https://www.bps.go.id>.

Compares to the Figure 3-14, Map of Palm Oil in Indonesia, it is shown that the area of palm oil plantation in Indonesia has increased and dispersed significantly over time from only in North Sumatera at the colonial time to the other parts of Indonesia.

Figure 3-14. Map of Palm Oil Production in Indonesia 2018



Source: Data from Indonesia Directorate General of Estate, "Tree Crop Estate Statistics of Indonesia 2018-2020," 2020, 11, <https://ditjenbun.pertanian.go.id/?publikasi=buku-publikasi-statistik-2018-2020>.

Sumatra Island has the largest area of oil palm plantations, followed by Kalimantan. It dominates the location with around 70 percent of the total planted area in Indonesia reaching 8,047,920 hectares in 2018. Included in this are four provinces on the island of Sumatra the largest areas being Riau, North Sumatra, South Sumatra, and Jambi. In addition, Kalimantan Island is the second largest palm oil plantation in Indonesia, with a total planting area of 5,588,075 hectares, most of which are located in West Kalimantan, Central Kalimantan and East Kalimantan.

Based on these figures, it is evident that oil palm is not widely developed in the Sulawesi, Maluku and Papua Islands, even the islands of Nusa Tenggara and Bali do not have oil palm plantations at all. The islands of Sulawesi and Papua have very large areas of land. Papua and West Papua are considered as targeted areas for palm oil expansion by the Indonesian government.

The Ministry of Agriculture (2005) estimated that Papua has about 5.7 million ha of land suitable for oil palm cultivation and it triggers the attention of the investors turn to these areas. Besides, there is a special provision for plantation investment in Papua, where the plantation shall be doubled due to the perception that vast areas

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of land are available for development.¹²¹ The government policy allows oil palm estates in Papua to be twice the size of those in other provinces in Indonesia.¹²² During the President Habibie period, the government permitted 28 Indonesian private companies to open large-scale oil palm plantations in Papua with long-term licenses (99 years) and access to a maximum of 100,000 hectares per company (as opposed to 40,000 hectares in other provinces).¹²³ Between 2010 and 2011, additional land of about 155,000 ha was acquired for plantation estates. So that if the development of palm plantations is carried out on these islands, the existence of oil palm plantations is very likely to develop rapidly and be able to advance the communities in these areas according to the government plan. Indonesia has a comparative advantage in terms of land availability, labor, and low salary compared to other palm oil-producing countries, which will be an opportunity to spread this industry in Indonesia by inviting foreign investors.

3.6. Economic Contribution of Palm Oil to the Indonesian Economy

Palm Oil makes an important contribution to the Indonesian Economy. This industry contributes to economic growth, poverty alleviation and income distribution within society. Palm oil has succeeded in lifting 2,6 million rural Indonesians from poverty.¹²⁴ With the 8,6 million hectares of oil palm, the exports amounted to around IDR 20 billion in 2017.

The economic contribution of the palm oil sector in Indonesia can be seen at least in three categories: GDP, job availability, and number of smallholders. Table 3-5 summarizes agricultural sectors, palm oil, total export value and GDP contributed

¹²¹ Indonesia Minister of Agriculture, "Licensing Guidance for Plantation Business," Pub. No. 26/Permentan/OT 140/2/2007 Article 12, paragraph (3) (2007), <http://extwprlegs1.fao.org/docs/pdf/ins72955.pdf>.

The limit of size of plantation cultivation business area in Papua Province shall be twice of the limit as meant in paragraph (1) at the maximum.

¹²² Caroko and Komarudin, *Policy and Institutional Frameworks for the Development of Palm Oil-Based Biodiesel in Indonesia*, p. 10.

¹²³ Wakker, "Greasy Palms: The Social and Ecological Impacts of Large-Scale Oil Palm Plantation Development in Southeast Asia", p. 20.

¹²⁴ Amzul Rifin et al., "Assessing the Impact of Limiting Indonesian Palm Oil Exports to the European Union," *Journal of Economic Structures* 9, no. 1 (December 2020): 26, <https://doi.org/10.1186/s40008-020-00202-8>, p. 2.

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from palm oil. This crop contributed 3,5 % of Indonesia's national gross domestic product in 2018 and 20,58 billion USD total export value.

The rural development plan, through its value chains, palm oil provides job opportunities for many poor people who are mostly located in rural areas. As a labor-intensive sector, palm oil has employed up to 7,8 million laborers.¹²⁵ This industry provided secure income, health care and education to the rural population. In addition, the modernization through infrastructures such as roads, bridges, motor vehicles, electricity can be enjoyed by the rural people.

The third contribution is related to the smallholders. The Indonesian government implemented various supporting programs for farmers, and these programs established by the government are being praised as successful to alleviate poverty in rural places.¹²⁶ In 2019 there were six million smallholders both independent and in various other models. The partnership program or plasma has helped the farmers to achieve a better life, and the independent smallholders see high returns on land and low labor requirements of oil palm cultivation as benefitting compared to other crops. The farmers state that the desire or need for cash is the major driver to invest in palm oil cultivation. They receive the payment immediately on the spot in cash.¹²⁷

Table 3-5. Palm Oil Contribution to Indonesia Economic Indicators

	Indonesia
Total Production KPO (million tons) -2019	5,9
Total production CPO (million tons) -2019	29,63
Total exports, CPO (million USD) -2017	18,5
Total exports KPO (million USD) -2017	2,3
Number of jobs in the palm oil sector (millions)	7,8
Number of Smallholders in the palm oil sector (millions)	6,0
Total GDP (billion USD) 2019	1119.19
Agricultural GDP (million USD) 2019	489.07
Palm Oil Sector GDP (million USD) 2018	20,54
Agricultural GDP/Total GDP (in %) 2019	12,72 %
Palm Oil Sector GDP (millions USD) (in%) 2018	3,5

¹²⁵ Purnomo et al., "Reconciling Oil Palm Economic Development and Environmental Conservation in Indonesia", p. 1.

¹²⁶ Zen, Barlow, and Gondowarsito, "Oil Palm in Indonesian Socio-Economic Improvement A Review of Options," pp. 16-17.

¹²⁷ Eva Anggraini and Philipp Grundmann, "Transactions in the Supply Chain of Oil Palm Fruits and Their Relevance for Land Conversion in Smallholdings in Indonesia," *The Journal of Environment & Development* 22, no. 4 (December 1, 2013): 391–410, <https://doi.org/10.1177/1070496513506225>, p. 404.

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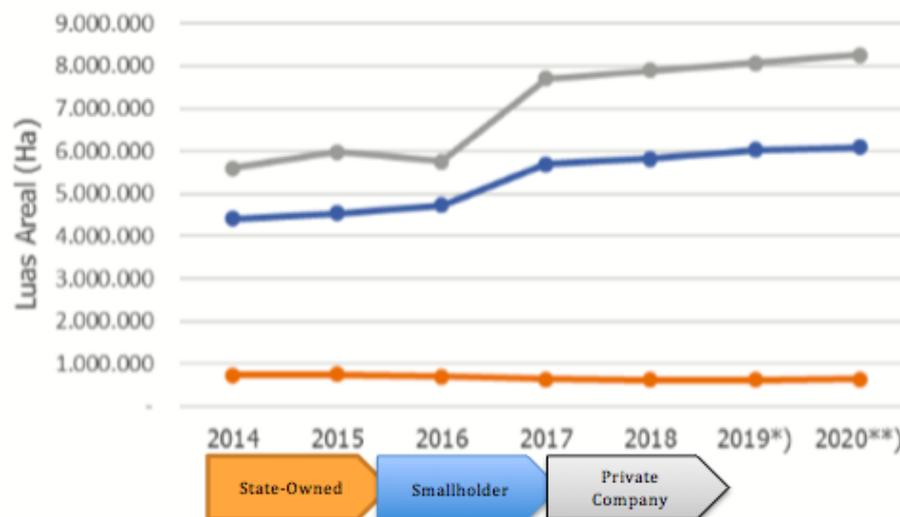
Sources: Statistics Indonesia, BPS RI, 2019, <https://www.bps.go.id>, and Trading Economics, 2020, "Indonesia GDP 1967-2019," <https://tradingeconomics.com/indonesia/gdp>.

3.7. Key Actors of Indonesian Palm Oil Industry

The landowners and the growers are the pivotal actors in the palm oil industry, followed by the mills and refineries. In Indonesia there are three types of growers, namely smallholder, private and state-owned company.

In 2018, the total area of oil palm plantations reached 14,326,350 hectares. 40.62 percent of the total planted palm trees is controlled by the private companies followed by the smallholders (39.14 percent) or government-owned (4.29 percent) with the total area of 7,892,706 hectares, 5,818,888 hectares and 614,756 hectares respectively. Private companies contributed the largest palm oil production of Indonesian total palm oil production (42,883,631 tons) in 2018 with 25,439,694 tons, followed by smallholders who produced 15,296,801 tons, and government-owned of 2,147,136 tons. However, the smaller contribution of private and smallholders in the production compared to the area planted indicate that the state-owned estate has a higher productivity. From this it can be inferred that government-owned company has more experience in palm oil business.

Figure 3-15. Share of Agricultural System of the Palm Oil Sector in Indonesia



Source: Data from Indonesia Directorate General of Estate: "Tree Crop Estate Statistics of Indonesia 2018-2020", 2020, 10, <https://ditjenbun.pertanian.go.id/?publikasi=buku-publikasi-statistik-2018-2020>.

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From figure 3-15, it can be seen that during the five-year period from 2014 to 2018 the development of smallholder plantations and private plantations tended to increase with an average growth rate of 7.35% and 9%, respectively. The area of private companies increased from 5.6 million hectares in 2014 to 7.9 million hectares in 2018, while the area of smallholders increased by 1.4 million hectares to 5.8 million hectares from 2014 to 2018. The state-owned plantation areas have not experienced significant development in the last 5 years. This is due to the fact that PT. Perkebunan Nusantara as state-owned has constraints in financing for expansion and administrative constraints such as determining the purchase price of existing plantation land. In other words, the development of smallholders and private companies greatly affects the total development of oil palm plantations in Indonesia. In 2019 and 2020, the area of both types of growers is estimated to increase again from 2018 with a growth rate of around 2.3%. The area of oil palm plantations is expected to continue increasing due to the rapid development of the palm oil industry and the growing demand for vegetable oil in the world.

Within Indonesia's palm oil supply chain, there are far more corporate groups operating at the plantation. 187 corporations are operating in plantation, 178 at the mill, 25 at the refinery, and 55 at export. Wilmar, Sinar Mas, and Musim Mas own more than half of the refinery capacity and dominate palm oil exports from Indonesia. The market concentration with a small number of corporate groups at the refinery stage is probably due to the greater capital requirements for refinery ownership compared to mills.¹²⁸

Currently, more than thirty big groups dominate the Indonesian palm oil industry, namely transnational companies.¹²⁹ Table 3-6 shows the top 10 Indonesian palm oil companies in 2017, assessed by their annual revenues.

¹²⁸ Romain Pirard et al., "Corporate Ownership and Dominance of Indonesia's Palm Oil Supply Chains," *Trase.Earth*, Trase Info Brief 9 (January 2020): 7, pp. 3-4.

¹²⁹ Norman Jiwan, "The Political Ecology of the Indonesian Palm Oil Industry: A Critical Analysis," in *The Palm Oil Controversy in Southeast Asia: A Transnational Perspective*, ed. Oliver Pye and Jayati Bhattacharya (Singapore: ISEAS, 2012), p. 53.

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Table 3-6. The Top 10 Indonesian Palm Oil Companies

Company	Headquarter	Revenue	Areas	Production	Other Information
Cargill	Jakarta	\$107 billion	41,000 ha		14,000 plasma farmers, 190,000 employees
Wilmar International	Singapore	\$41 billion	160,000 ha		the largest producer of palm oil in the world
PT Salim Ivomas Pratama Tbk	Jakarta	\$14.53 billion	246,055 ha	956,000 tonnes	owns 20 palm oil plantations
Astra-Agro	Jakarta	\$14.12 billion	297,011 ha	3.73 million tonnes of FFB	51,709 oil palm smallholders organized in 2,396 farmer groups.
PT SMART Tbk	Jakarta	\$7.21 billion	138,000 ha		operates 16 mills
Tunas Baru Lampung Tbk	Jakarta	\$6.5 billion	-		serving large companies like Nestle and Unilever
PT Dharma Satya Nusantara Tbk	Jakarta	\$4.1 billion	90,300 ha		owns 7 palm oil mills strict “zero-burning” rules and “zero waste”
PT PP London Sumatra Indonesia Tbk	Jakarta	\$351.1 million	114,461 ha	384,535 tonnes	own 38 company estates and 24 smallholder estates
PT Socfin Indonesia	Jakarta	\$29.7 million	38,737 ha	360,885 tonnes	Own 9 plantations
Asian Agri	Jakarta				employs about 25,000 people R&D Center in Tebing Tinggi

Source: Data from BizVibe, “Top 10 Indonesian Palm Oil Companies,” 2017, <https://blog.bizvibe.com/blog/food-beverages/top-10-indonesian-palm-oil-companies>.

New players are entering the industry, and old players are merging into larger companies. They are owned and controlled by the Indonesian palm oil industry of Malaysian, Singaporean and American investors.¹³⁰ These companies directly control more than 1,000 oil palm plantation subsidiaries and indirectly control the fresh oil palm fruit bunches supplied by outsourced growers and local small oil palm plantations. The emergence of these transnational companies is understandable because a modern transnational corporation can effectively lobby for its objectives.¹³¹ Motives for building a transnational corporation are the need for securing key supplies or ensuring critical supplies, entering new markets,

¹³⁰ Jan Willem van Gelder and Eric Wakker, “People, Planet, Palm Oil? A Review of the Oil Palm and Forest Policies Adopted by Dutch Banks” (Milieudefensie - Friends of the Earth Netherlands, March 2006), p. 10.

¹³¹ Richard H. Robbins, *Global Problems and the Culture of Capitalism*, 6th ed. (Boston, Mass: Pearson, 2014), p. 131.

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tapping low-cost factors of production and using these strengths to play a strategic game in the global market.¹³² The extent of the plantation was possible by converting forests and community forests into palm oil plantations. These were triggered by two things, firstly by the project of the Indonesian government to become the largest palm oil country evokes the government to provide various facilities such as licenses, capital and low wage laborers.¹³³ The second reason is the high demand for biofuel especially of palm oil. Those reasons invite the private companies to bolster their authority in Indonesia. One facility in terms of permits that a company is obliged to have among others is Land Use Right (Ind: Hak Guna Usaha or HGU), the policy of granting rights to manage State's lands to companies. The Land Use Right (HGU) in the first phase is valid for 35 years, and agricultural use can be extended for another 25 years.¹³⁴ If combined the time is almost 60 years. In addition, the deregulation agenda has changed the regulatory framework. The Plantation Law allows up to 100,000 hectares of plantations to be planted in a province under a single permit, and the Investment Law allows foreign ownership of a domestic and foreign investment to the maximum.¹³⁵ This situation ultimately changed the Indonesian palm oil industry owned by foreign private companies. Furthermore, on April 26, 2007, the President signed Law No. 25 Year 2007 regarding Capital Investment,¹³⁶ the permits for Capital investment companies to obtain land rights, immigration service facilitation and import permit.¹³⁷ The palm oil plantation is a large-scale plantation which requires large tracts of land, labor

¹³² Christopher A. Bartlett and Paul W. Beamish, "Introduction: So what is Transnational Management?" in *Transnational Management: Text and Cases in Cross-Border Management*, ed. Christopher A. Bartlett and Paul W. Beamish, 8th ed. (Cambridge, United Kingdom: Cambridge University Press, 2018), p. 5.

¹³³ Indonesia Ministry of Plantation, "Perkebunan," Pub. No. 163.Act no. 18 of 2004 (2004), www.bpkp.go.id/uu/filedownload/2/39/224.bpkp.

¹³⁴ Achmad Surambo, *HGU and HAM, Land Use Rights and Human Rights* (Bogor, Indonesia: Sawit Watch, 2009), p. 3.

¹³⁵ Norman Jiwan, "The Political Ecology of the Indonesian Palm Oil Industry: A Critical Analysis," in *The Palm Oil Controversy in Southeast Asia: A Transnational Perspective*, ed. Oliver Pye and Jayati Bhattacharya (Singapore: ISEAS, 2012), p. 52.

¹³⁶ Indonesian Government, "Capital Investment," Pub. Law of the Republic of Indonesia NO. 25/2007 (2007),

http://www.flevin.com/id/lgsso/translations/JICA%20Mirror/english/3002_UU_25_2007_e.html.

¹³⁷ Indonesian Government, "List of Business Fields Closed to Investment and Business Fields Open, with Conditions to Investment," Presidential Regulation of the Republic of Indonesia No. 39 of 2014 (2014), <http://www.indonesia-investments.com/upload/documents/Negative-Investment-List-Indonesia-Daftar-Negatif-Investasi-Indonesia-Investments.pdf>.

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mass, an effective bureaucracy, high technology, and modern management. Those requirements can be found in private companies, and it is coherent that only those who have capital can master this highly profitable sector.

In conclusion, it is clear that those who gain most from this industry are the capitalists, and they are the key player in this industry.

3.8. Current Issues and Challenges of Palm Oil Industry in Indonesia

The proliferation of oil palm plantations in Indonesia has become the subject of political and environmental debates. The supporters are praising this crop as the catalyser of rural people's economy, contributing to economic development and as a commodity playing an important role in mitigating climate change, providing alternative sources of energy, and fulfilling the global food demand. Others are concerned about potentially serious unintended social, economic and environmental impacts. In this section, there will be a discussion about the issues related to the palm oil industry, which is often defined as externalities.

Palm Oil and Ecological Issues

However, despite economic growth, there are concerns that rapid development and expansion of oil palm plantations have left an undesirable ecological footprint. Oil palm expansion has been associated with rainforest clearing, which contain a high level of biodiversity. Peat lands are home to global carbon reserves and their disappearance leads to a significant amount of greenhouse gas emissions.¹³⁸ In Sumatera and Kalimantan over 10 million hectares of peatland was degraded.¹³⁹ Converting them into oil palm plantations resulted in a carbon debt of 610 Mg of CO²/ha, which would take between 86 to 93 years to repay. For plantations established in peat lands, the carbon debt would be much higher, 6000 Mg of CO²/ha; this would take over 840 years to repay.¹⁴⁰ One research study revealed that

¹³⁸ Yaghoob Jafari et al., "Risks and Opportunities from Key Importers Pushing for Sustainability: The Case of Indonesian Palm Oil," *Agricultural and Food Economics* 5, no. 1 (December 2017): 13, <https://doi.org/10.1186/s40100-017-0083-z>, pp. 4-5.

¹³⁹ Stephen Khan, "Indonesia Sets a Carbon Time-Bomb," *The Conversation*, September 25, 2013, accessed October 10, 2021, <https://theconversation.com/indonesia-sets-a-carbon-time-bomb-17216>.

¹⁴⁰ Obidzinski et al., "Environmental and Social Impacts of Oil Palm Plantations and Their Implications for Biofuel Production in Indonesia", pp. 7-8.

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33.5% of oil palm plantations were on forestlands (including peat forests), 26.3% on shrublands (including peat shrublands), 34.1% on agroforests, and 6% on other lands. Shrublands means the secondary forests which replaced primary forest after experiencing logging or fires.¹⁴¹ Approximately 18 million hectares of tropical rainforest in Indonesia has been deforested and commercialized.¹⁴² Even so, Indonesia is still the country with the third-largest area covered by tropical forest.

The conversion of forests for palm oil plantation has been associated with the loss of biodiversity, including Orang-Utans and the Sumatran Tiger.¹⁴³ In the past ten years, the number of orangutans in Kalimantan has fallen by 50%. Up to one third of the Indonesian orang-utan population is believed to have died during the 1997-1998 forest fires. Palm Oil is a poor replacement for the natural tropical forest and failed to support biodiversity. Studies have shown that oil palm plantations can only feed 0-20% of the mammals, reptiles and birds in the rainforest.¹⁴⁴ It has caused a reduction in species richness by 83%. The species richness of forest butterflies reduced by 79-83%, and birds-species by 73-77%, whereas the conversion of rubber plantations is only 14% decline in species richness.¹⁴⁵

In a global analysis of tropical deforestation, there are two basic deforestation ‘models’: poverty-driven and capital-driven. In the poverty-driven model, small farmers expand into the forest due to a lack of other alternatives. In the capital-driven model, large external players create deforestation boundaries for economic or political gains. In the palm oil sector, the capital-driven force is stronger, driven by the market opportunities to fulfill the global demand for processed food, biofuel and another non-edible product.¹⁴⁶ Deforestation and the setting-up of plantations

¹⁴¹ Birka Wicke et al., “Exploring Land Use Changes and the Role of Palm Oil Production in Indonesia and Malaysia,” *Land Use Policy*, 2011, <https://agris.fao.org/agris-search/search.do?recordID=US201500217130>, p. 204.

¹⁴² Colchester, *Promised Land*, p.12.

¹⁴³ Obidzinski et al., “Environmental and Social Impacts of Oil Palm Plantations and Their Implications for Biofuel Production in Indonesia”, p. 25.

¹⁴⁴ Jan Willem van Gelder, *Greasy Palms: European Buyers of Indonesian Palm Oil* (The Netherlands: Friends of the Earth, March 2004), p. 17.

¹⁴⁵ Lian Pin Koh and David S. Wilcove, “Is Oil Palm Agriculture Really Destroying Tropical Biodiversity?” *Conservation Letters* 1, no. 2 (2008): 60–64, <https://doi.org/10.1111/j.1755-263X.2008.00011.x>, pp. 2-4.

¹⁴⁶ E.L. Yuliani et al., “Forest or Oil Palm Plantation? Interpretation of Local Responses to the Oil Palm Promises in Kalimantan, Indonesia,” *Land Use Policy* 96 (July 2020): 104616, <https://doi.org/10.1016/j.landusepol.2020.104616>, p. 2.

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were both part of a combined economic plan. There is a shift to market-driven economy in the agricultural sector in Indonesia. The state encouraged the growth of markets and the private sector and attract agro-industrial investors in response to emergent global markets for carbon, biofuels and biodiversity rather than ensuring food security and nutrition to the most vulnerable populations.¹⁴⁷ Biofuels in general have been associated with the food crisis and were accountable for 75 percent of the rise in food prices.¹⁴⁸ Environmental and economic effects of oil palm expansion have been associated commonly to large-scale plantations than the smallholders.

The European Union (EU) is an important source of demand for many agricultural products related to deforestation. Over the period 1990–2008 the EU-27 imported crop and livestock products associated with 9 million ha of deforestation, amounting to almost 36 percent of embodied deforestation in crop and livestock products traded between regions. The EU-27 was the largest global net importer of embodied deforestation, with soy from Brazil and Argentina and palm oil from Indonesia and Malaysia accounted for almost 70 percent of its deforestation footprint. With the rapid expansion of the economy, China is likely a larger importer overcoming the EU in recent years.¹⁴⁹

In opening the plantation, fire is chosen to be the cheapest and fastest way. Indonesia has suffered because of the fires and haze in 1998 and 2015. The forest fires are raging across over 4 million hectares and cause social and health impacts as well as creating enormous amounts of greenhouse gas emissions with far-reaching environmental and economic consequences.¹⁵⁰ 2.6 Million Hectares of Indonesian land were burned between June and October 2015.¹⁵¹ A report by the

¹⁴⁷ Bhaskar Vira, Christoph Wildburger, and Stephanie Mansourian, *Forests and Food: Addressing Hunger and Nutrition Across Sustainable Landscapes* (UK: Open Book Publishers, 2015), pp. 20-21.

¹⁴⁸ Gal Hochman et al., "Impacts of Biofuels on Food Prices," in *The Impacts of Biofuels on the Economy, Environment, and Poverty*, ed. Govinda R. Timilsina and David Zilberman (New York: Springer New York, 2014), pp. 47-48.

¹⁴⁹ Duncan Brack and Laura Wellesley, "Agricultural Commodity Supply Chains: Trade, Consumption and Deforestation," Chatham House – International Affairs Think Tank, January 28, 2016, <https://www.chathamhouse.org/2016/01/agricultural-commodity-supply-chains-trade-consumption-and-deforestation>, pp. 6-7.

¹⁵⁰ Norman Jiwan, Bambang Hero Saharjo, and Jeffri Saragih, *Development of Palm Oil Plantation Based on Greenhouse Gases Critical Perspectives* (Bogor, Indonesia: Sawit Watch, 2009), <https://www.loc.gov/item/2012330588/>, p. 19.

¹⁵¹ Ann Jeannette Glauber et al., "The Cost of Fire," *World Bank*, February 2016, <https://openknowledge.worldbank.org/handle/10986/23840>, p. 1.

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Centre for International Forestry Research (CIFOR) tagged the economic cost of the 1997/98 fires and haze at 2.3-3.5 billion USD, not including the costs of carbon release which may have amounted to as much as 2.8 billion USD.¹⁵² In 2015, the estimated economic cost of fire to Indonesia (USD 16 Billion) was larger than the estimated value added from Indonesia's 2014 gross palm oil exports (USD 8 Billion) and the value added from the country's entire 2014 palm oil production (USD 12 Billion).¹⁵³

Other ecological problems are related to water security, where main water sources have been rendered unusable by pollution- heavy sediment loads in rivers and streams, floods, land grabbing, drought, and pollution. Palm oil production brings about various types of environmental pollution caused by forest and peat fires, pollution caused by excessive or improper use of agro-chemicals; and - Palm Oil Mill Effluent (POME) dumping. All of these consequences due to unsustainable oil palm practices have further burdened communities in many locations.¹⁵⁴

Socio-Economic Issues: Poverty Alleviation, Land Conflicts, Labors, Food Security

Besides the ecological aspect, palm oil expansion draws criticism in terms of its socio-economic impact and human rights violation. Smallholders, plantation workers and indigenous people are marginalized through different structures and processes. The impact on human rights mainly occurred during the early development of land acquisition and plantation. Vulnerable groups such as women and children are predominantly affected. As a result, resentment and dissatisfaction led to land conflicts in palm plantations. In 2008 there were around 513 land disputes which are closely monitored and documented pertaining to abuses of human rights between palm oil companies and local communities in Indonesia.¹⁵⁵

¹⁵² Gelder, "Greasy Palms", p. 18.

¹⁵³ Glauber et al., "The Cost of Fire", p. 2.

¹⁵⁴ Truly Santika et al., "Does Oil Palm Agriculture Help Alleviate Poverty? A Multidimensional Counterfactual Assessment of Oil Palm Development in Indonesia," *World Development* 120 (April 28, 2019): 105–17, p. 106.

¹⁵⁵ Serge, "Losing Ground: The Human Rights Impacts of Oil Palm Plantation Expansion in Indonesia", pp. 8-9.

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Smallholders are trapped in exploitative industrial relationships in partnership schemes and agreements. The common system of palm oil production in Indonesia is based on the nucleus plasma system, by which 80% of the land is allocated to the company as a nucleus estate and 20 % is handed over to the society as plasma fields. Farmers give up their rubber areas, fields and traditional gardens and receive two hectares of oil palm in exchange. The reduction in the size of their land holdings and of multiple livelihood opportunities (examples from rice, rubber, gardens) makes them highly dependent on the oil palm harvest of their plasma plot while the income they receive is highly dependent on the crude palm oil (CPO) price fluctuations in the regional and global markets. Changing the multicultural economic system into mono-cultural farming therefore drastically reduces the elasticity of the plasma farmer economy. It makes them trapped in debt and poverty. They do not have any reserve land areas to expand cultivation extensively, such as by opening a new oil palm plantation for their future generations. The family of plasma farmers can only pass down the poverty to their descendants. Poverty amongst the plasma farmers is structural because of the imbalance between the plasma farmers and the company in the relations of production.¹⁵⁶ The company controls the input of the production like palm seeds, fertilizers, treatments, and the post-harvest production process. The plasma farmers only control a little of the land and the family workers. This operation is not typical for a justice economy. Even independent smallholders have the freedom to sell their yields to seek the highest prices for fresh fruit bunches, they still face a greater risk of rejection by the mills. One of the barriers to smallholders is the market dependency on the corporates in the palm oil's supply chain. The role of smallholders in the supply chain is only to produce palm oil in their small plantations and deliver the yields to processing mills. The cultivation of oil palm also has negative social impacts, such as land expropriation and poor working conditions in the plantations.

Even though palm oil is produced to meet the food demands in the global market, palm oil is associated with the food crisis and was accountable for 75 percent of the rise in food prices. In some cases, this industry also is detrimental to local

¹⁵⁶ Dewi, "Reconciling Development, Conservation, and Social Justice in West Kalimantan", p. 171.

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livelihoods, it has affected shifting cultivation practices of local people, causing food security. The people cannot rely on subsistence farming and are forced to buy food from the market and their household costs for food are increasing. Regarding malnutrition, there is evidence that villages participating in palm oil activities have lower levels of malnutrition.¹⁵⁷

One of the policy goals of President Joko Widodo since 2014 is food sufficiency, to raise domestic food production and reduce food imports. This Indonesian development thinking is in line with moves in the global development community to value agriculture as a progressive sector “for development”. Food security defines as access to sufficient food at affordable prices, and food sovereignty as a call for localized, democratic empowerment of food producers. Unfortunately, much in Indonesia’s food self-sufficiency program reinforces these views of a political economy driven by elite business interests working with state powerholders. Corporate agribusiness tends to be concentrated in export-oriented cash crops grown on large estates. One example is the 1,2 million hectares Merauke Integrated Food and Energy Estate in West Papua (MIFEE) announced in 2010. Food estates in Papua have made things worse for small scale farmers.¹⁵⁸

To support this industry, many rice plantations have been converted to palm oil in Indonesia. According to the research from Anggraini, the farmers surveyed said that once oil palm is planted on a piece of land, it will be difficult to restore food crop production. Oil palm consumes a lot of water and lowers the groundwater level. Their roots degrade nearby crops, change the soil structure, and affect nearby rice fields. Rice plants cannot compete with oil palm for water.¹⁵⁹

Oil palm plantations have also disrupted the mutual aid system or in Indonesia is called “Gotong Royong”, which is an important feature of the Indonesian

¹⁵⁷ Raquel Moreno-Peñaranda et al., “Stakeholder Perceptions of the Ecosystem Services and Human Well-Being Impacts of Palm Oil Biofuels in Indonesia and Malaysia,” in *Biofuels and Sustainability: Holistic Perspectives for Policy-Making*, ed. Kazuhiko Takeuchi et al., (Tokyo: Springer Japan, 2018), 133–73, https://doi.org/10.1007/978-4-431-54895-9_10, pp. 145-47.

¹⁵⁸ Natasha Hamilton-Hart, “Indonesia’s Quest for Food Self-Sufficiency: A New Agricultural Political Economy?”, *Journal of Contemporary Asia*, July 2, 2019, 1–25, <https://doi.org/10.1080/00472336.2019.1617890>, pp. 747-748.

¹⁵⁹ Anggraini and Grundmann, “Transactions in the Supply Chain of Oil Palm Fruits and Their Relevance for Land Conversion in Smallholdings in Indonesia”, p. 401.

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community.¹⁶⁰This value encourages people, usually farmers, to make joint decisions, organize water allocation, plan fertilization, pest control and crop harvesting. However, it will not happen in palm oil plantations.¹⁶¹

Uncontrolled expansion has also brought serious consequences to many impoverished rural communities. Poverty and social problems in some areas of the outer islands are particularly serious and require more attention to ensure a more balanced regional development. Oil palm plantations as an important driver of economic development in Indonesia can be generally accepted because it provides employment in rural areas, and show the increase of smallholder's economy. However, because this industry requires a certain amount of experience and capital expenditures, it is likely to benefit migrant smallholders and workers with previous experience in oil palm plantation than indigenous people with no prior exposure, like the community in Papua.¹⁶²

In addition, the impacts of the palm oil industry cannot be generalized. There is a recent study about the impact of palm oil between market-oriented livelihoods and the impact on subsistence-based livelihoods. The samples of this subsistence-based livelihoods are swidden farming of dryland rice and inland fishing, market-oriented livelihoods including polyculture plantations as rubber or coconut, aquaculture and non-agricultural sectors. The finding shows there are improvements in sanitation and energy and access to secondary schools in market-oriented communities, but it is reduced in subsistence-economy livelihoods due to the remoteness of villages and the arrival of labors from outside the region. At the same time, ethnic diversity is increasing. Economically, people's livelihoods are reduced due to the scarcity of forest products such as rattan and other forest products. In addition, due to the loss of land and the lack of compensation due to the weak land tenure system, conflicts mainly occurred in the start-up phase of the plantation.¹⁶³ The community faces a decline in social and environmental well-being.

¹⁶⁰ See: Dieter Becker, *Die Kirchen und der Pancasila-Staat: indonesische Christen zwischen Konsens und Konflikt* (Erlangen: Verl. der Ev.-Luth. Mission, 1996), pp. 27-29.

¹⁶¹ Anggraini and Grundmann, p. 401.

¹⁶² Jafari et al., "Risks and Opportunities from Key Importers Pushing for Sustainability", p. 5.

¹⁶³ Santika et al., "Does Oil Palm Agriculture Help Alleviate Poverty?," pp.14-15.

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In contrast, some studies have also concluded that palm oil has a positive impact on socio-economic conditions. The controversy began with the fact that nature protection is a matter of social decision-making. Many poor rural residents are more likely to choose oil palm than natural forests with a strong desire to get rid of poverty and to pursue economic advancement.¹⁶⁴ Oil palm plantations give permanent income to peasants and provide employment in rural areas and create new economic activities. Other opportunities are in providing road, transportation, telecommunication, health service, water, housing, and other infrastructures by investors. In Sumatra province, the results show that adoption by smallholder families has significantly benefited from a higher standard of living.¹⁶⁵ In Kampar and Musi Banyuasin in Riau provinces, oil palm plantations contributed more than 63% of household income, or approximately five to eleven million rupiahs. The rate of poor people in oil palm communities is also no more than 10%. In terms of income distribution, a high equality of income is indicated, the Gini coefficient in oil palm areas being relatively small, around 0.36.¹⁶⁶

In Indonesia, there are official minimum wages which are specified by the government for all provinces. Based on the Ministry of Labour Republic Indonesia Regulation No 15/2018/10, new minimum wages are defined every year. The calculation of next year's minimum wage is based on the current fiscal year's inflation and gross domestic product (GDP) growth rate. It was found that not all workers are paid based on a wage per hour, instead by the amount of Fresh Fruit Bunches (FFB) they harvest. This is why working hours can be longer, if certain targets are not reached within normal working hours. To reach this target, other family members will assist including their children. Evidence from the palm oil plantations in Riau shows the employment being under unsatisfactory conditions.

¹⁶⁴ Jeffrey Sayer et al., "Oil Palm Expansion Transforms Tropical Landscapes and Livelihoods," *Global Food Security* 1, no. 2 (December 1, 2012): 114–19, <https://doi.org/10.1016/j.gfs.2012.10.003>, p. 5.

¹⁶⁵ Vijesh Krishna et al., "Differential Livelihood Impacts of Oil Palm Expansion in Indonesia," *Agricultural Economics* 48, no. 5 (September 2017): 639–53, <https://doi.org/10.1111/agec.12363>, p. 650.

¹⁶⁶ Wayan R Susila, "Contribution of Oil Palm Industry to Economic Growth and Poverty Alleviation in Indonesia," *Jurnal Penelitian dan Pengembangan Pertanian* 23, No.3 (2004): 107-113, pp. 109-10,113.

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Each plantation company may have its own form of employment practice and the workers receive income insufficient for their descent.¹⁶⁷

Cultural-Anthropological Issues: Indigenous People

Due to colonial rule, private sector exploitation, and discriminatory government laws and policies, indigenous peoples suffered discrimination, marginalization, and loss of land and natural resources. Indonesia has about 500,000 to 70 million indigenous people, which account for about a quarter of the country's population.¹⁶⁸ The widespread expansion of land has prevented people from accessing resources, such as land for food crops that are used to meet their basic needs and livelihoods, and generate income.

The large-scale expansion of estate expansion has led to people being excluded from access to resources such as land used for food crops for their own basic needs and generating income. This not only violates the political and civil rights of local peasants but also their economic rights. The Principle of Free, Prior, and Informed Consent (FPIC) has been recognised but not implemented by the Indonesian government, devastatingly impacting landless people groups.¹⁶⁹

FPIC has emerged as an international human rights standard derived from the collective rights of indigenous peoples to self-determination and their lands, territories, and other properties. For this guide, it should be seen as a collective right of indigenous peoples to make decisions through their own freely chosen representatives and traditional or other institutions and to give or withhold their consent before the approval by government, industry, or another outside party of

¹⁶⁷ Hariati Sinaga, "Employment and Income of Workers on Indonesian Oil Palm Plantations: Food Crisis at the Micro Level," *Journal on Food, Agriculture and Society* 1, No.2 (Winter 2013):64-78, p.75.

¹⁶⁸ Human Rights Watch, "*When We Lost the Forest, We Lost Everything*": *Oil Palm Plantations and Rights Violations in Indonesia* (United States: Human Rights Watch, 2019), pp. 4-5.

¹⁶⁹ Saurlin Siagian, Amin Siahaan, and Nur Khairani, *The Loss of Reasons. Human Rights Violations in the Oil-Palm Plantations in Indonesia* (Indonesia: Lentera Rakyat, September 2011), <https://docplayer.net/35527548-The-loss-of-reason-human-rights-violations-in-the-oil-palm-plantations-in-indonesia-saurlin-p-siagian-amin-siahaan-buyung-nur-khairani.html>, p. 36.

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any project that may affect the lands, territories, and resources that they customarily own, occupy or otherwise use.¹⁷⁰

This Free, Prior, and Informed Consent (FPIC) is similar to Indonesia's principle of 'consultation and consensus' (Ind: *musyawarah dan mufakat*). This respect requires companies to recognize that even where a comprehensive process has been undertaken, before signing an agreement, communities still have the right to say 'no' to oil palm development on their lands. In Indonesia, the Plantation Law No.18 stipulates that any palm oil company wishing to acquire new land on the territory of the indigenous people must obtain the consent of the indigenous people, and if the people accept the land, they must pay for the agreed land cost compensation.

The United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) states the rights of indigenous peoples, including their rights to own and use traditional property, land, territories and natural resources.¹⁷¹ In the most general sense, indigenous peoples can be understood as the descendants of people who lived in a country or geographic area when people of different ethnic origin arrived. Indigenous peoples play an important role in land use decision-making, but they are not the main determinants in the field.

In order to establish oil palm plantations, Indonesian law requires companies to obtain multiple government permits. These permits include site permits from the governor or regent, social impact assessments and environmental permits from a district or provincial authorities, plantation permits at the district or provincial level, forest conversion permits from the Ministry of Forestry, and finally the cultivation permits. Before a company obtains a "right to cultivate" permit, the company should consult the land's rights holders, namely the indigenous people, to obtain an agreement of the land transfer and compensation. In theory, these steps seem clear

¹⁷⁰ FAO, *Respecting Free, Prior and Informed Consent: Practical Guidance for Governments, Companies, NGOs, Indigenous Peoples and Local Communities in Relation to Land Acquisition* (Rome: Food and Agriculture Organization of the United Nations, 2014), pp. 4-5.

¹⁷¹ Sophie Chao, "Forest Peoples. Numbers across the World" (UK: Forest People Programme, May 4, 2012), <http://www.forestpeoples.org/en/topics/climate-forests/publication/2012/new-publication-forest-peoples-numbers-across-world>, pp. 4-7.

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and linear; but there are gaps and minimal government oversight over how a company conducts consultations in practice.¹⁷²

The government's efforts focus more on formulating procedures for indigenous people to transfer land to companies for investment. Therefore, no mechanism has been established to deal with the negative external impacts of large-scale plantation investments on the indigenous people who gave up their land, as well as appropriate compensation procedures and information on how to guidance of returning the land to the community after the company's rights expire.¹⁷³ Failing to fully respect the rights of local communities to their lands and the Free, Prior, and Informed Consent (FPIC) principle is the root cause of violent conflicts between and within communities, with companies, and with the State. Such conflicts present severe risks to the communities but also plantation companies and investors.

An ethnography study of the *Marind* people and palm oil plantation has been conducted by the anthropologist Sophie Chao in Papua. These villages have about 757 families who call themselves 'Marind of the Bian river'. Each clan is related to certain animals, plants, and elements, which Marind calls "grandparents" (*amai*) or "brothers and sisters" (*namek*). These sentient beings share the same blood with their ancestor spirits or members (*dema*), and their past efforts are described in a large number of myths. However, due to the large-scale expansion of oil palm monoculture, severe water pollution, endemic loss of biodiversity, and extensive deforestation have endangered Marind and their 'forest-*Dema*'s interrelationships.¹⁷⁴

The forest for the community is a dynamic living space. According to their belief, one is never alone in the forest but palm oil has replaced the forest and this plantation is considered by many Marind as a selfish and solitary being. It is "without friends and family." The life-giving movements of animals and plants, ancestors and spirits, humans and nonhumans, are increasingly impeded by the

¹⁷² Human Rights Watch, "When We Lost the Forest, We Lost Everything": Oil Palm Plantations and Rights Violations in Indonesia, pp. 34-35.

¹⁷³ Andrianto, Komarudin, and Pacheco, "Expansion of Oil Palm Plantations in Indonesia's Frontier."

¹⁷⁴ Sophie Chao, "Wrathful Ancestors, Corporate Sorcerers: Rituals Gone Rogue in Merauke, West Papua," *Oceania* 89, no. 3 (November 2019): 266–83, <https://doi.org/10.1002/ocea.5229>, pp. 4-5.

incursion of oil palm and the solitary, oppressive places that it occupies.¹⁷⁵ With the arrival of the plantation, the people are torn between hope and reality, between modernization and the customary way of life.

In suggesting that villagers have succumbed to the lure of money and material comfort, the Marind's ambivalent relationship to 'modernity as a way of life is fetishised and reviled at the same time. On the one hand, community members condemn modernisation projects because they create an impression of abundance that is illusory and short-lived, like the compensation money that turned out short-lived. Many community members are tempted by the prospect of cash income from employment in the plantations, allowing them to send their children to better schools in the cities. The Marind face violence or racial stigma, cultural discrimination, and rejection in their attempts to 'survive' in 'modernity'. They are deemed as primitive and uneducated when they participate informal employment.¹⁷⁶

Enhanced regulation of the oil palm, informing people on the long-term aspects of the conversion, and helping people remain connected to the community and not be trapped in individualistic neoliberal ideologies is very important. In addition, the embeddedness to local traditions and traditional institutions like traditional knowledge, customary rules, norms and daily life values should be preserved.

One research study proved that embeddedness to the whole community always made decisions and actions carefully by considering the impacts to descendants and the whole community and ancestral heritage. The connectedness with nature and its traditional beliefs with nature will lead to a positive appreciation of natural ecosystems.¹⁷⁷

3.9. Interim Result

This chapter describes the important developments in the history of the Indonesian oil industry and the current challenges that this industry is facing. In the later chapters, critical aspects of the industry are identified.

¹⁷⁵Sophie Chao, "'There Are No Straight Lines in Nature': Making Living Maps in West Papua," *Anthropology Now* 9, no. 1 (January 2, 2017): 16–33, <https://doi.org/10.1080/19428200.2017.1291014>, pp. 20-21.

¹⁷⁶ Sophie Chao, "The Plastic Cassowary: Problematic 'Pets' in West Papua," *Ethnos* 84, no. 5 (October 20, 2019): 828–48, <https://doi.org/10.1080/00141844.2018.1502798>, pp. 14-15.

¹⁷⁷ Yuliani et al., "Forest or Oil Palm Plantation?", p. 8.

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Disparate assessments of the costs and benefits of the palm oil industry illuminate the complexity of this issue. The argument supporting the palm oil industry contributes to Indonesia's economy, absorbs manpower in a big way, is a successful means of developing rural areas, is enhancing community welfare, and acquires valuable foreign exchange supported by facts and numbers as recognized by some scholars cannot be simply objectified. In calculating the costs and benefits of palm oil proliferation, others expostulated that the economic and non-economic costs of the expansion of this industry outweigh the benefits. The ecological degradation caused by the economic benefit is unjustified. A study calculated that if palm oil expands to 2025 at the current rate, the physical and monetary costs of palm oil expansion will exceed the benefits to the society because compromises exist not only between the environment and the economy but also between social and cultural issues. Many stakeholders, employees, out-growers have reported significant gains. However, these profits are not evenly distributed. Most of its monetary benefits are enjoyed by a few corporate groups. There are some winners but also many losers, and economic gains accumulate at the expense of a weak rule of law. Some researchers argue that countries with a lower quality of governance are more inclined to achieve production increases by expanding agricultural areas rather than increasing yields.¹⁷⁸ The suggestion for the solution to this problem is that poor governance in oil palm management issues should be resolved as well as the attitude of local governments to promote oil palm expansion. The need for good governance to regulate oil palm expansion in Indonesia is required to halt the forest conversion.¹⁷⁹

Indonesia's ongoing challenge is to balance economic growth and efficiency with agricultural policies that benefit rural poor livelihoods and smallholders. The need to balance the ecology, economic and socio-cultural aspects in this sector is crucial. The score of Indonesia on the sustainability palm oil index of 35,02% indicates that

¹⁷⁸ Menno Mandemaker, Martha Bakker, and Jetse Stoorvogel, "The Role of Governance in Agricultural Expansion and Intensification: A Global Study of Arable Agriculture," *Ecology and Society* 16, no. 2 (2011), <https://doi.org/10.5751/ES-04142-160208>, p. 1.

¹⁷⁹ Anggraini and Grundmann, "Transactions in the Supply Chain of Oil Palm Fruits and Their Relevance for Land Conversion in Smallholdings in Indonesia", pp. 391-93.

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this balance is still disturbed or Indonesia's palm oil is less sustainable.¹⁸⁰ This indication perceives that economics aspects are prioritized over social and ecological aspects. From the beginning to the current position, Indonesia's state's main priority is more likely to be dominated by economic aspects. But it is mandatory that the state should give serious attention to all aspects. When Indonesia's development plans, such as Medium-Term National Development Plan (RPJMN), Long Term National Development Plan (RPJPN), or Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI) and other palm oil development plans continue to be concerned only with one aspect in this matter, Indonesia will face ongoing problems and conflicts in the long run.

The economic benefits of palm oil should be allocated to improve the environment and society. Taxation of palm oil can ensure that the economic benefits of industrial oil palm directly offset the local development costs. But a report indicates that from the contribution of tax revenues of the palm oil industry in 2012/2013 of USD 0.8-1 billion, only 11-14% or around USD 106 million, was directly redistributed to local governments.¹⁸¹ The current fiscal policy in Indonesia highlights relatively low levels of tax collection from the palm oil industry. Corruption and a lack of tax compliance are key reasons for low levels of tax collection, as in West Kalimantan only 10% and in Riau 30% of oil palm plantation companies have complied with tax obligations.¹⁸² There is a greater need for policy formulation and operative management by every stakeholder, as well as cooperation and synergy. With the development and globalization of the palm oil industry, the trend shows that as the world's population grows and becomes more affluent, the demand for oil palm will continue to rise. Other countries can learn from Indonesia's experience and learn

¹⁸⁰ Petir Papilo et al., "Sustainability Index Assessment of Palm Oil-Based Bioenergy in Indonesia," *Journal of Cleaner Production* 196 (September 2018): 808–20, <https://doi.org/10.1016/j.jclepro.2018.06.072>, p. 818.

¹⁸¹ Angela Falconer, Tiza Mafira, and Guntur Sutiyono, "Improving Land Productivity through Fiscal Policy" (Climate Policy Initiatives, December 2015), <https://www.climatepolicyinitiative.org/publication/improving-land-productivity-through-fiscal-policy/> 9.

¹⁸² Santika et al., "Does Oil Palm Agriculture Help Alleviate Poverty?" April 28, 2019., p.16.

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how to use its economic benefits, while minimizing ecological and social cultural costs.¹⁸³

The study of the impact between subsistence and market-based livelihoods will help the Indonesian state to consider more carefully expanding palm oil in remote forested areas like Papua. It shows that the indigenous community's contact with the market economy can lead to poverty and displacement because they are not well integrated into the market system. Participation in the market has changed the opportunities and strategies of forest-related people. Rural development support work requires a better understanding of the potential importance of the market and how people respond to the market. It is also believed that the rural population, especially the rural poor, has easier access to forest products.¹⁸⁴ To start the palm oil industry in the rural areas, a clear and carefully development plan is required. It is hoped that by facilitating the right skills, considering the socio-cultural context, and analyzing the long-term risks and benefits of palm oil for the community, the socio-economic burden of the local people may be minimized.

In the end, it is evident that this commodity has contributed to Indonesia's economic strength, and without it, the country would suffer greatly. Sustainable palm oil which is fair to workers, communities, indigenous people and ecology must continue to be instigated. The Indonesian government is supposed to be more careful in making important decisions or policies in the palm oil expansion. They should not only focus their attention on economic progress without regard to the welfare of the people. The state should focus on infrastructure development and further enhancement of justice in the community, human resources development, and environmental protection. Even more critical, the actions taken at present affect the people who live today and those who have not yet been born fifty years in the future. As one of the stakeholders, corporations have to be more aware and conscious in operating their business. Company scandals, corruptions, and

¹⁸³ Joanne C. Gaskell, "The Role of Markets, Technology, and Policy in Generating Palm-Oil Demand in Indonesia," *Bulletin of Indonesian Economic Studies* 51, no. 1 (January 2, 2015): 29–45, <https://doi.org/10.1080/00074918.2015.1016566>, p. 29.

¹⁸⁴ Manuel Ruiz-Pérez et al., "Markets Drive the Specialization Strategies of Forest Peoples," *Ecology and Society* 9, no. 2 (September 1, 2004), <https://doi.org/10.5751/ES-00655-090204>, p. 1.

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unethical behavior result in loss of trust, credibility, and integrity from the world community in this free-market system. People search for corporations which contribute to the creation of the common good not only for profits.

Chapter 4

Global Economic System and Palm Oil Industry

This chapter examines the role of palm oil has played in the integration of Indonesia into the global economy, the bridges between the local and global dimensions under the influence of global institutions, systems, and policies at national and global.

4.1. Palm Oil and its By-product

Elaeis guineensis originated in West Africa and has become one of the most profitable commercial high-tree crops. It has undergone one of the highest rates of expansion compared to other crops in the tropical world. This crop has been used as food and medicine throughout the ages. The earliest archeological evidence found in an old Egyptian tomb suggests people have been cooking with palm oil for up to 5000 years in the tropical zones of West and Central Africa. In its homeland, oil palm has traditionally been a significant source of food and construction material.¹⁸⁵ Palm oil grows within 10° of the equator in most countries with high rainfall at least 1,600 mm/year in tropical climates. Palm trees produce bundles of fruits weighing 10 to 40 kilograms.¹⁸⁶

A mature palm can reach a height of 20 meters. Trees start to produce about three years after planting and can live to 50 years old. Due to the decline in yield and difficulty in harvesting, they are usually replanted after 20-25 years. Once harvested, the fresh fruit bunch must be processed within 48 hours, so access to a mill is a significant factor in determining where palms can be commercially established. It is essential to coordinate harvesting and processing operations to be geographically close with reliable transport infrastructure.¹⁸⁷

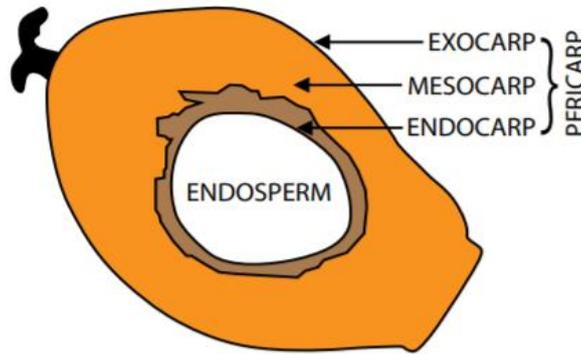
¹⁸⁵ Joshua M. Linder and Rachel E. Palkovitz, “The Threat of Industrial Oil Palm Expansion to Primates and Their Habitats,” in *Ethnoprimatology*, ed. Michel T. Waller, Developments in Primatology: Progress and Prospects (Cham, Switzerland: Springer International Publishing, 2016), 21–45, https://doi.org/10.1007/978-3-319-30469-4_2, p. 21.

¹⁸⁶ Kwasi Poku, *Small-Scale Palm Oil Processing in Africa* (Rome: Food and Agriculture Organization of the United Nations, 2002).

¹⁸⁷ IUF, “Background Document an Overview of the Palm Oil Sector: Countries and Companies” (Global Palm Oil Conference, Bogota, Colombia: IUF, 2015), pp. 4-5.

The fruit of oil palm consists of the outer shell (exocarp), the pulp (mesocarp), the shell (endocarp), and the kernel. Oil (triglycerides) can be extracted from fruits and seeds. The raw palm oil comes from the mesocarp, and palm kernel oil comes from the endosperm.

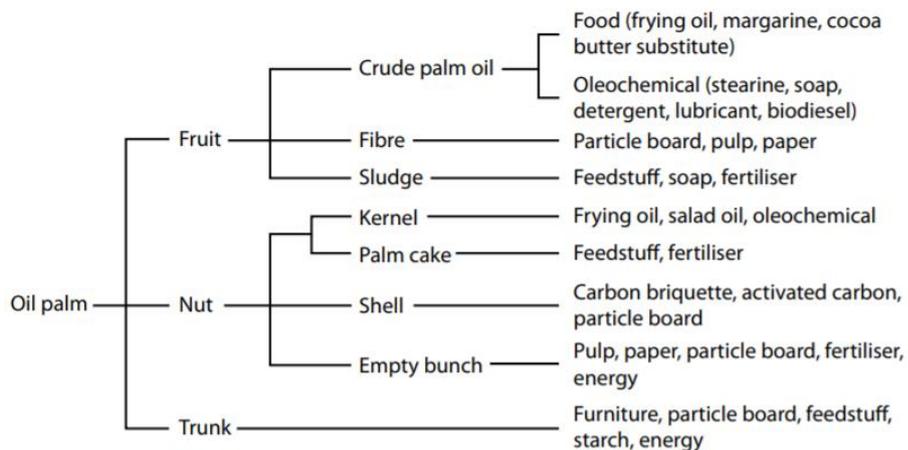
Figure 4-1. Oil Palm Fruit



Source: Douglas Sheil et al., eds., The Impacts and Opportunities of Oil Palm in Southeast Asia: What Do We Know and What Do We Need to Know?, CIFOR Occasional Paper 51 (Jakarta: CIFOR, 2009),p. 3.
Note: Oil Palm Fruit: The fruit comprises outer oily flesh or pericarp (made up of exo-, meso- and endocarp) and an oil-rich seed or kernel (endosperm)

Crude palm oil (CPO) is used in foods, while palm-kernel oil is used mainly in various non-edible products, for example, detergents, cosmetics, plastics, and other industrial and agricultural chemicals. The multiple uses of "by-products" can increase profits and be counted as opportunities.

Figure 4-2. Use of Oil Palm By-products and Biomass in Food and Manufacturing Industries



Source: Douglas Sheil et al., eds., The Impacts and Opportunities of Oil Palm in Southeast Asia: What Do We Know and What Do We Need to Know? CIFOR Occasional Paper 51 (Jakarta: CIFOR, 2009),p. 12.

Palm Kernel Cake and the biomass resulting from crushing and waste can be employed as animal feed or biofuel. Rising fossil fuel prices and environmental issues mean that palm oil is used as a raw material for agricultural diesel or biodiesel.¹⁸⁸ The uses of palm oil production are both edible, for use in foodstuffs like cooking oil, and it appears in bakery products, potato crisps, and other snacks, ice creams, and other dairy products and margarine, as well as non-edible for palm biomass or palm biodiesel.¹⁸⁹ The flexibility of palm oil use is one of its most valuable qualities. Either palm oil or palm kernel oil can be found on the packaging of 50% of the products stocked on most supermarket shelves.

In terms of efficiency and land productivity, palm oil has lower production costs and produces more oil from less land compared to other major oil crops as shown in table 4-1 below:

Table 4-1. Oil Production of Palm Oil and Other Major Oil Crops

Oil Type	Oil Yield (kg/ha)
Palm	4000-5000
Rapeseed	1000
Groundnut	890
Sunflower	800
Soya bean	375
Coconut	395
Cotton seed	173
Sesame seed	159

Source: Douglas Sheil et al., eds., The Impacts and Opportunities of Oil Palm in Southeast Asia: What Do We Know and What Do We Need to Know? CIFOR Occasional Paper 51 (Jakarta: CIFOR, 2009), p. 11.

Palm oil production is less labor-intensive than other tropical commodities such as rubber and cocoa. Returns on land, capital, and labor produce substantial revenues for companies. The plantations profit by employing cheap, abundant labor. In Indonesia, this is mainly achieved through large-scale immigration programs that resettle most of the poor Javanese smallholder farmers to oil palm plantations and

¹⁸⁸ Douglas Sheil et al., *The Impacts and Opportunities of Oil Palm in Southeast Asia: What Do We Know and What Do We Need to Know?* (Jakarta: CIFOR, 2009), pp. 3,12.

¹⁸⁹ R. H. V. Corley and P. B. Tinker, *The Oil Palm*, 5. ed, (Chichester: Wiley-Blackwell, 2016), p. 28.

marginalize the customary landowners. In addition, oil palm development mainly creates seasonal and temporary jobs.¹⁹⁰

4.2. Palm Oil Early Trade

Palm Oil industry until World War II was primarily centered on Africa and was used only as food for the slaves during the West African slave trade in 1562. After the slave trade was abolished in 1807, ivory and timber being developed as alternative commerce, and the palm oil trade finally took off in the 1850s, encouraged by the British government. The trade was around 30,000t in the 1860s and 87,000t by 1911, mainly produced from Nigerian farmers. The industrial revolution in Europe created a greater demand for palm oil in the nineteenth century for the soap and candles industry.¹⁹¹ Almost all soap in Britain was made from palm oil, followed by major new uses as lubricants for the railways and as a flux in the tinplate industry for canned food and used for margarine. The price in those times was far higher than the current world price. One of the manufacturers in the 1890s was Lever Brothers with their famous *sunlight soap*, which became the one major buyer that resulted in monopsonistic demand. Oil palm is a key factor in the merger of the Dutch margarine producer Margarine Unie and the British soap manufacturer Lever Brothers. It became Unilever in 1929 and became the world's largest consumer products company operates in multiple countries with annual sales of more than 5.2 billion USD in 2019.¹⁹² Besides palm oil, the demand for palm kernel oil also increased sharply after being produced by African women who cracked the nuts by hand in 1832. The export of kernels was much larger than the oil due to the large consumption. Henderson and Osborne supported that the explosion of demand for palm oil helped end the slave trade in West Africa.¹⁹³

In order to increase the output, towards the end of the 19th century the palm oil plantations were established in Africa by the United Kingdom and Belgium.

¹⁹⁰ Linder and Palkovitz, "The Threat of Industrial Oil Palm Expansion to Primates and their Habitats", p. 30.

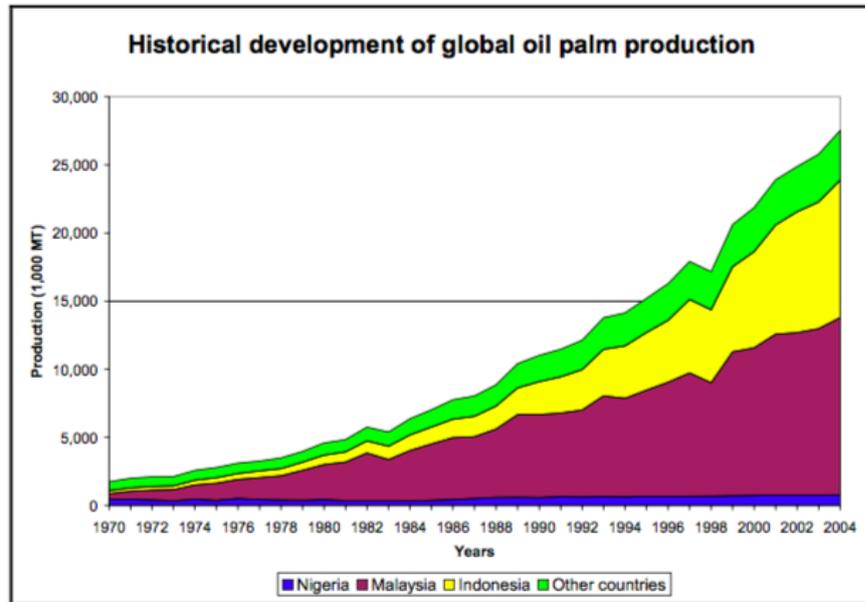
¹⁹¹ Janice Henderson and Daphne J Osborne, "The Oil Palm in All Our Lives: How This Came About," *Endeavour* 24, no. 2 (June 1, 2000): 63–68, [https://doi.org/10.1016/S0160-9327\(00\)01293-X](https://doi.org/10.1016/S0160-9327(00)01293-X), pp. 63-64.

¹⁹² Unilever, "Annual Report and Accounts 2019 Highlights," Unilever, 2019, accessed October 9, 2021, <https://www.unilever.com/investor-relations/annual-report-and-accounts/>.

¹⁹³ Corley and Tinker, *The Oil Palm*, pp. 3-4.

Followed one century later by the colonial rulers in Asia: the Dutch in Indonesia in 1910 and British in Malaysia in 1920.¹⁹⁴ Right from the early establishment, this crop was used as an export crop that needed high-quality control and handling systems.

Figure 4-3. Historical Development of Global Palm Oil Production 1970-2004



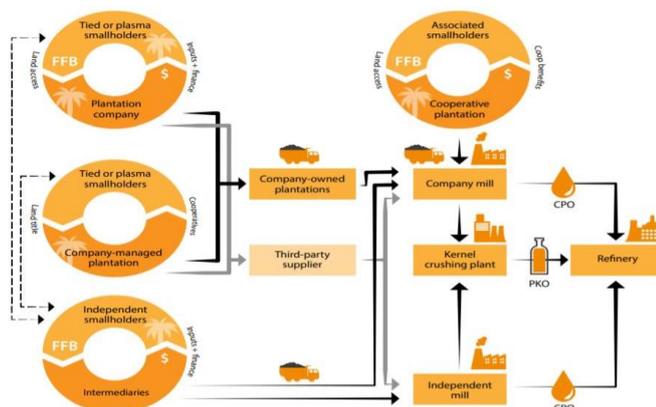
Source: Jan Willem van Gelder, "Greasy Palms: European Buyers of Indonesian Palm Oil" (The Netherlands: Friends of the Earth, March 2004), p. 2.

Before the Industrial Revolution, Nigeria became the largest exporter and produced more than 50% of the global demand for palm oil until 1934, before Malaysia surpassed them. According to figure 4-3, Malaysia became the biggest producer as of 1975 and supplied more than 40% of global palm oil demand.

4.3. The Palm Oil Supply Chain

An integrated global palm oil production chain to supply oil palm to the industries and customers has been developed over the years. Figure 4-4 shows a schematic overview of this oil palm production chain, from the plantation to the end-consumer.

¹⁹⁴ Jan Willem van Gelder, *Greasy Palms: European Buyers of Indonesian Palm Oil* (The Netherlands: Friends of the Earth, March 2004), pp. 2-3.

Figure 4-4. Palm Oil Supply Chain

Source: Pacheco P. et al., *The Palm Oil Global Value Chain: Implications for Economic Growth and Social and Environmental Sustainability* (Center for International Forestry Research (CIFOR), 2017), p.15.

Palm oil is taken out from the oil palm, both the fruit (palm oil) and the kernels (palm kernel oil), whose trees need rain showers with temperatures between 24 and 32°C to bear fruit after three years. Its growth is generally limited to latitudes of approximately ten degrees north and south of the equator, at altitudes below 700 meters. There are three stages of the palm oil supply chain: production, processing, and trade and consumption.

As part of the production, the cultivating and harvesting process is operated by different growers as smallholders, state-owned and private-owned companies. However, the independent and plasma smallholders tend to be tied to plantations and their mills.

The Fresh Fruit Bunches (FFB) produced by the plantation are taken to the mills to be extracted. To obtain a marketable product, the palm fruit bunches must be processed within 48 hours of harvesting, as this prevents the acidity level from rising and the quality of the oil from declining. The smallholders also bring their yields to the mills, meaning that there is often only one possible buyer, the plantation mill. For this reason, the milling facilities had to be located to a sufficiently large number of trees and connected to the plantation by reliable transport infrastructure. In the mills, fresh fruit bunches are pressed to release raw palm oil, and the kernels are crushed to produce palm kernel oil and powder. These three raw materials are used in various manufacturing processes and industries that use palm oil applications.

After the milling, the refining process transforms crude palm oil (CPO) to processed palm oil (PPO). The refineries were generally located in Europe until the 1970s, and the oil left the producing countries mostly in crude form. Nevertheless, after the 1970s, Malaysian producers started to invest in the downstream stages of the supply chain.¹⁹⁵ Two decades later, in 1999, Indonesia had 57 palm oil refineries with a total annual production capacity of 7.9 million tons. Most of these businesses are owned by Indonesians, and only one, namely Wilmar, is a joint venture between a large American commodity trader the Archer-Daniels-Midland company, commonly known as ADM, and the Chinese company the China Oil and Foodstuffs Corporation or COFCO.¹⁹⁶

At the same time, the factories of major Indonesian and Malaysian palm oil companies partially refine raw palm oil and palm kernel oil locally, although higher tariffs imposed on refined oil by the consumer market also mean important import destinations such as Rotterdam.¹⁹⁷ The number of companies in the factory is relatively small, making it one of the most concentrated stages in the value chain.¹⁹⁸

From the refineries, the processed palm oil is being used to process a broad range of final products in several industrial sectors, applied to both edible and non-edible segments in multiple industries, including biofuel. The oleochemical industry uses edible oils to make oleochemicals. The applications of oleochemicals can be seen in the following table.¹⁹⁹

Table 4-2. Applications of Oleochemicals

Applications of Oleochemicals	
Industry/Product	Uses
Leather	Softening, dressing, polishing and treating agents
Metal Work & Foundry	Cutting oils, coolants, buffing and polishing compounds
Mining	Surface-active agents for froth floatation of ore and oil-well drilling
Rubber	Vulcanising agents, softeners and mould-release agents
Electronics	Insulation and special-purpose plastic components

¹⁹⁵ European Commission, Directorate General for the Environment., 3Keel., and LMC International., *Study on the Environmental Impact of Palm Oil Consumption and on Existing Sustainability Standards: Final Report and Appendices* (LU: Publications Office, 2018), <https://data.europa.eu/doi/10.2779/530244>, p. 43.

¹⁹⁶ van Gelder, "Greasy Palms: European Buyers of Indonesian Palm Oil," pp. 38-39.

¹⁹⁷ Jaap van Dalen and Ronald Backers, "Vegetable Oil Refining," Port of Rotterdam, June 12, 2015, <https://www.portofrotterdam.com/en/doing-business/setting-up/existing-industry/refining-and-chemicals/vegetable-oil-refining>.

¹⁹⁸ Brack and Wellesley, "Agricultural Commodity Supply Chains", p. 9.

¹⁹⁹ van Gelder, "Greasy Palms: European Buyers of Indonesian Palm Oil," p. 8.

Applications of Oleochemicals	
Lubricant & Hydraulic Fluids	General and specialty industrial lubricants and biodegradable base oils, hydraulic fluids
Paints & Coatings	Alkyd and other resins, drying oils, varnishes and other protective coatings
Printing & Paper Recycling	Printing inks, paper coatings, photographic printing, de-inking surfactants
Plastics	Stabilizers, plasticizers, mould-release agents, lubricants, anti- static agents, antifogging aids, polymerisation emulsifiers
Biofuels	Methyl esters and alcohols
Waxes	Ingredients in waxes and polishes
Soaps & Detergents	Industrial and domestic products, specialty surfactants
Health & Personal Care	Culture media, tableting aids, soaps, shampoos, creams, lotions
Food	Emulsifiers, confectionery and specialty fats for bread, cakes, pastries, margarine, ice-cream and other food products
Animal Feeds	Nutritional supplements

Source: Jan Willem van Gelder, "Greasy Palms: European Buyers of Indonesian Palm Oil" (The Netherlands: Friends of the Earth, March 2004), p.8.

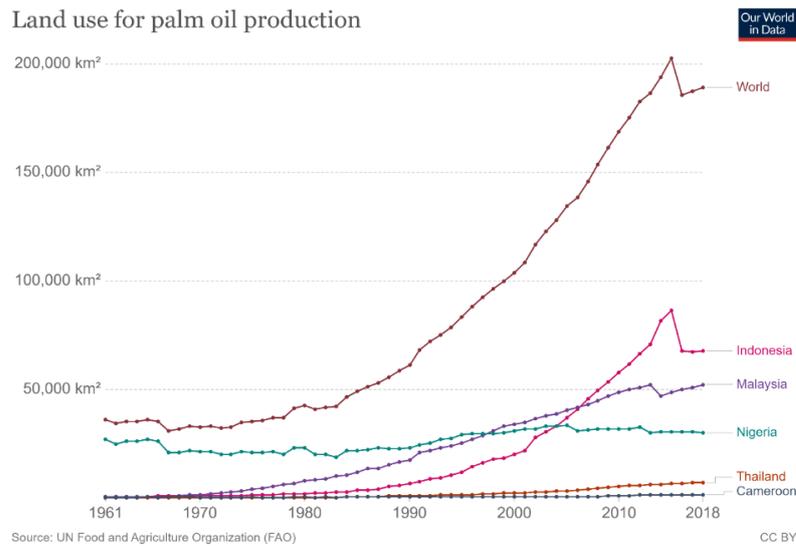
The end-user or final processing industries in the supply chain are the food industry, soap and detergents industry, cosmetics industry, leather, textile industry, metal industry, chemical industry, compound feed industry, and electronics industry.

4.4. Global Palm Oil Production Dynamic

Palm oil has expanded significantly over the years. According to Food and Agriculture Organization (FAO) data, approximately 19 million hectares of oil palm were planted in 2018 as shown in Figure 4-5. The total global palm oil production in the same year was 71 million tons, compared with 53.3 million tons in 2008. This commodity is the highest yield of all vegetable oils, surpassing the second-largest oilseed crop, namely soybeans, and palm oil production will be increased to 264-447 million tonnes by 2050.²⁰⁰ Consequently, palm oil development is increasing in the Central and Eastern parts of Indonesia, Papua New Guinea, Central, West Africa, and Central and South America.

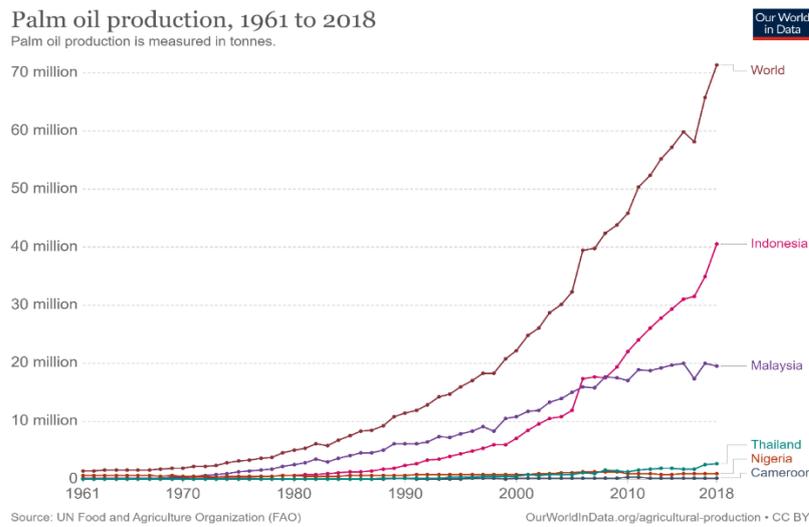
²⁰⁰ WWF, "Palm Oil Buyers Scorecard 2020, Measuring the Progress of Palm Oil Buyers" (WWF, January 17, 2020), https://palmoilscorecard.panda.org/file/WWF_Palm_Oil_Scorecard_2020.pdf, p.10.

Figure 4-5. Land Use for Palm Oil Production



Source: Our World in Data, "Land Use for Palm Oil Production," 2018, <https://ourworldindata.org/grapher/land-use-palm-oil>.

Figure 4-6. Palm Oil Production from the Year 1961 to 2018



Source: Our World in Data, "Oil Palm Production," 2018, <https://ourworldindata.org/grapher/palm-oil-production>.

Even though oil palm originated in Africa, the expansion of this industry in Africa is lagging behind Southeast Asia. There is a massive difference in productivity between the two continents. Since the year 1961 according to the figure. 4-6, there was no improvement in Nigeria and Cameroon, while in Asia, there was rapid growth. The production in Africa remained constant.

To fulfill the global demand, Southeast Asia²⁰¹, which plays a leading role in the global production of palm oil, supplied 84,1 % of the global production, followed by Africa, the Americas, and Oceania with 9%, 6%, and 0,9%, respectively.²⁰² South American countries like Argentina and Brazil are among the largest producers and exporters of soybean. However, they show moderate growth in the palm oil sector. Southeast Asia is the largest area for expansion because it fulfills warm temperatures, sunshine, and plenty of rain. Besides the climate, additional advantages include better processing technology, government support, institutional solid both private and state. In addition, research and development also play a crucial role. Both Indonesia and Malaysia have Palm Oil Research Institute. To become the primary producers, this is not only results from a larger planted area but also comparatively higher yields. The system of plantation in Southeast Asia is majority operated by large scale estates, and now the smallholders have become a crucial player in the production.

Together, Indonesia and Malaysia account for almost 90% of globally traded palm oil, producing 43,5 and 19,3 million tons, respectively, and still plan to further expand their palm oil production. We can see these percentages in both figure 4-7 and figure 4-8. Oil palms planted in Malaysia and Indonesia are higher in quality and high in area coverage. Palm Oil harvested area in Indonesia covers around 11,95 million hectares, while Malaysia has 5.35 million hectares of plantations. Indonesia's ambitious plan came to realization. The government has set a production target, over 40 million tonnes crude palm oil by 2020, implied in doubling the area under oil palm cultivation from about 8 million ha in 2010 to 15 million ha in 2020.²⁰³

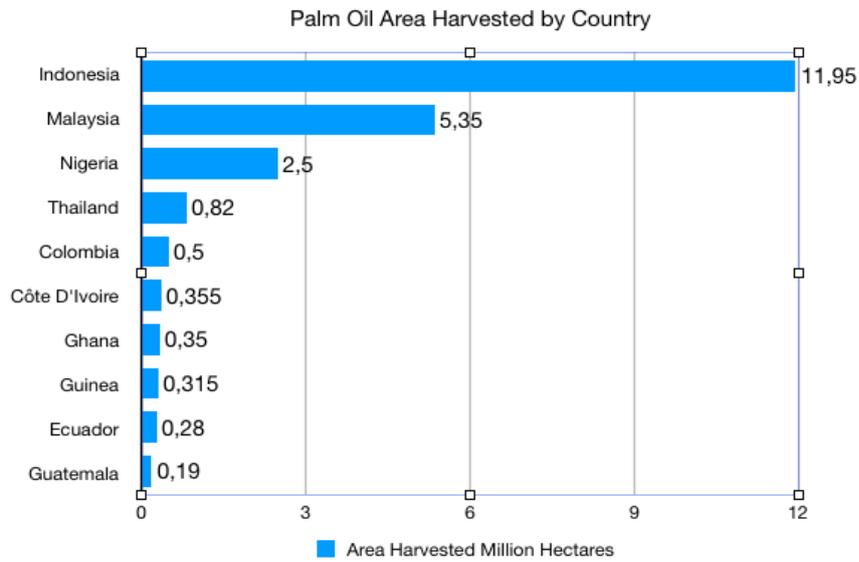
²⁰¹ Yoga Rusmana and Eko Listiyorini, "Indonesia Palm Oil Exports to India Seen at Record on Demand - Bloomberg," Bloomberg.com, February 4, 2018, <https://www.bloomberg.com/news/articles/2018-02-04/indonesia-palm-exports-to-india-seen-at-record-on-strong-demand>.

Nigeria is the fifth largest palm oil producing country, yet only produces 1.7% of the world's palm oil, equals an output of 970,000 tonnes. The future could be bright for the Nigerian palm oil industry as this country provides prime land for palm oil plantations. There are about 24 million hectares of ideal plantation land, but only 3 million hectares are put to use. 21 million hectares could supply tons of production of palm oil.

²⁰² FAOSTAT, "Production Share of Oil Palm Fruit by Region 2018," FAOSTAT, September 14, 2020, <http://www.fao.org/faostat/en/#data/QC/visualize>.

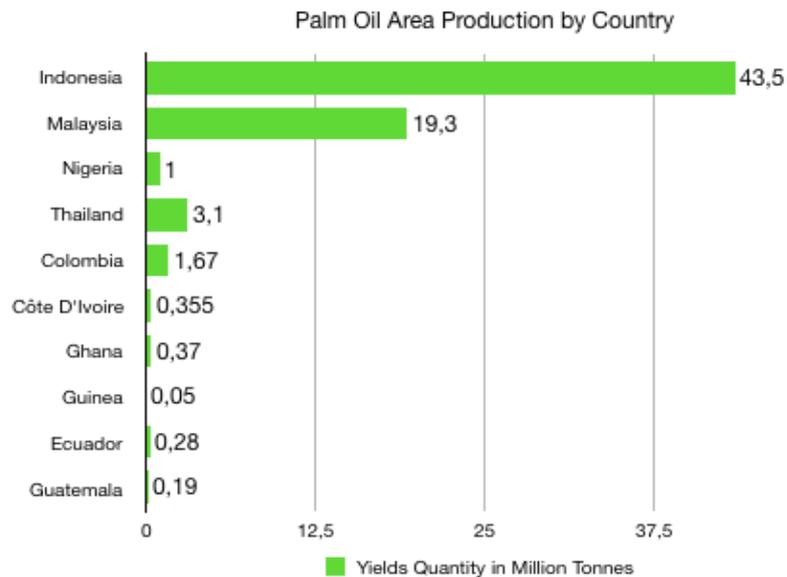
²⁰³ Jiwan, "The Political Ecology of the Indonesian Palm Oil Industry: A Critical Analysis," p. 49.

Figure 4-7. Palm Oil Harvested Area by Country in 2020



Source: Data from Index Mundi, "Palm Oil Area Harvested by Country in 1000 HA - Country Rankings, 2020, <https://www.indexmundi.com/agriculture/?commodity=palm-oil&graph=area-harvested>.

Figure 4-8. Palm oil area Production by Country in 2020



Source: Index Mundi, "Palm Oil Production by Country in 1000 MT - Country Rankings," 2020, <https://www.indexmundi.com/agriculture/?commodity=palm-oil&graph=production>.

Malaysia's and Indonesia's palm oil industry is based on an export-oriented model. When we see table 4-3, Malaysia exports 87 % of its palm oil production, and

4. Global Economic System and Palm Oil Industry

Indonesia sells 66% abroad. Both countries successfully established their industry, allowing them to export and meet their domestic markets' needs. The third and fourth producer Thailand and Colombia, almost targeted their production exclusively to the domestic markets.

Table 4-3. Exports and Imports by Region in 2020

	Production	Beginning Stocks	Consumption	Exports	Imports	Ending Stocks
Predominantly Exporter Countries						
Indonesia	43,500	3,993	14,875	28,750		3,868
Malaysia	19,300	2,074	3,475	16,725		1,974
Thailand	3,100	400	2,750	325	2	427
Colombia	1,670	212	1,165	775	230	172
Nigeria	1,015	58	1,400	18	400	55
Guatemala	852	10	60	810	20	12
Ecuador	615	92	350	265	-	92
Honduras	580	152	260	400	35	107
Papua New Guinea	561	6	18	570	30	9
Brazil	540	14	700	15	175	14
Côte D'Ivoire	515	17	390	230	100	12
Cameroon	465	10	500		35	10
Ghana	375	104	700	130	430	79
DR Congo	300	51	390	1	100	60
Costarica	244	15	52	210	15	12
Predominantly Importer Country						
India	200	223	9,430	-	9,200	193
China	-	292	6,445	30	6,400	217
EU-27	-	547	6,500	100	6,350	297
Pakistan	-	150	3,400	-	3,450	200
Bangladesh	-	110	1,650	-	1,650	110
United States	-	160	1,495	5	1,500	160

Source: Author's calculation from Index Mundi, 2020: "Palm Oil Imports by Country in 1000 MT - Country Rankings," <https://www.indexmundi.com/agriculture/?commodity=palm-oil&graph=imports> and "Palm Oil Exports by Country in 1000 MT - Country Rankings,"

<https://www.indexmundi.com/agriculture/?commodity=palm-oil&graph=exports>, accessed December 7, 2020.

High production costs and the low availability of land may already be affected by the peak of palm oil productivity in Malaysia and Indonesia. In Indonesia, the conflict around indigenous people, overlapping concessions, the 2011 moratorium to protect remaining forests and peatlands, and in Malaysia, the rising production

costs, restrictive government labor and immigration policies, aging trees, and labor shortages weakened their competitive position in the market.²⁰⁴

The expansion of oil palm plantations is mainly taking place by converting forest and arable land and has been highly criticized.²⁰⁵ The conversion of arable land used before for subsistence crop production has lately ignited a controversial discussion about the impact on food security, increasing poverty, and unequal inter-household distribution of income.²⁰⁶ Therefore one among alternative options to meet palm oil demand is increasing the yields. Indonesian plantation yields have reached 3.8 tonnes crude palm oil per hectare, and the global average is only 3.5 metric tonnes per hectare.²⁰⁷ The smallholders manage 38 percent of oil palm plantations in Indonesia and 40 percent in Indonesia, which will be increased to 60 % in 2030 surpass the plantation area of private estates according to the World Bank.²⁰⁸ Nevertheless, the productivity of a private company with 3.8 metric tonnes per hectare is higher than the smallholders, which approximately produce less than 2 tonnes per hectare,²⁰⁹ due to poor management, less capital and technology, or aging plantations.²¹⁰

In order to sustain its status as an essential supplier of crude palm oil domestically and globally, Indonesia needs to increase its production of crude palm oil substantially. By 2025, the total output of crude palm oil must reach 51.1 million tons. Therefore, there may be potential for increasing yield by replacing smallholder production with plantations run by agribusiness companies with better access to capital and technology to meet the demand of the market.²¹¹ However, this

²⁰⁴ Michael Shean, "Malaysia: Stagnating Palm Oil Yields Impede Growth," USDA Foreign Agricultural Service, December 11, 2012, <https://ipad.fas.usda.gov/highlights/2012/12/Malaysia/>.

²⁰⁵ Anggraini and Grundmann, "Transactions in the Supply Chain of Oil Palm Fruits and Their Relevance for Land Conversion in Smallholdings in Indonesia," p. 391.

²⁰⁶ Ibid, p. 392.

²⁰⁷ Joshua Levin et al., "Profitability and Sustainability in Palm Oil Production: Analysis of Incremental Financial Costs and Benefits of RSPO Compliance" (WWF, March 2012), <https://wwf.panda.org/?204548/Profitability-and-Sustainability-in-Palm-Oil-Production>.

²⁰⁸ Anggraini and Grundmann, p. 391.

²⁰⁹ Brack and Wellesley, "Agricultural Commodity Supply Chains", p. 13.

²¹⁰ Chain Reaction Research, "Future Smallholder Deforestation: Possible Palm Oil Risk," *Chain Reaction Research* (blog), October 29, 2019, <https://chainreactionresearch.com/report/future-smallholder-deforestation-possible-palm-oil-risk/>.

²¹¹ Brack and Wellesley, "Agricultural Commodity Supply Chains", p. 13.

will negatively impact the smallholders and local livelihoods, which is socially unacceptable.

If the yield is maintained at 3.8 tons per hectare, a total of 16.9 Mha will be needed by 2025 to meet crude palm oil (CPO) demand,²¹² 4,95 Mha in addition to the 11,95 Mha occupied by palm oil plantations in 2020 (see figure area harvested) in Indonesia, while in Malaysia require up to 5 Mha due to less land availability.²¹³ Rather than expanding the harvested areas, increasing yields through best management practices in cultivation and harvesting, improving the quality of the yields will bring more positive effects.

The projected decline in Indonesia and Malaysia's current leading countries has led the industry to seek new, low-cost frontiers in Africa and Latin America. This is an interesting projection to know how this industry is moving rapidly from Asia to Africa. Concerning the decision of the Indonesian government to limit new plantations to 100,000 ha and the extension of a moratorium in the expansion of plantations, the big companies in Indonesia, Malaysia, and Singapore have an interest in investing in Africa. China has an interest in about 1 million hectares of oil palm in Africa. West Africa appears as the place where the next expansion wave in palm oil will happen, both plantation and processing facilities, because of the apparent availability of land, relatively cheap labor, and governmental policies that encourage such expansion. Some of the countries are the Republic of Congo, Ghana, Nigeria, and Liberia.²¹⁴

The first agroindustry in Cameroon was set up in Edea in 1907 by the Germans, but the progress was cut short by the First World War²¹⁵, and now Cameroon also identifies as one of the emerging producers of palm oil. The expansion of the industry in Africa is encouraged in order to develop rural areas and poverty

²¹² Dilip Khatiwada, Carl Palmén, and Semida Silveira, "Evaluating the Palm Oil Demand in Indonesia: Production Trends, Yields, and Emerging Issues," *Biofuels*, (May 2, 2018): 1–13, <https://doi.org/10.1080/17597269.2018.1461520>, pp.1-3.

²¹³ Birka Wicke et al., "Exploring Land Use Changes and the Role of Palm Oil Production in Indonesia and Malaysia," *Land Use Policy*, Volume 28, Issue 1 (January 2011): 193-206, <https://doi.org/10.1016/j.landusepol.2010.06.001>, pp.16-18.

²¹⁴ IUF, "Background Document an Overview of the Palm Oil Sector: Countries and Companies", pp. 16-18.

²¹⁵ Alain Rival and Patrice Levang, *Palms of Controversies: Oil Palm and Development Challenges* (Indonesia: CIFOR, 2014).

reduction. I argue that the corporations are reluctantly showing their responsibility towards sustainability in this issue because they incline to expand their business to other countries with less regulation and concern about sustainability to secure their businesses.

Figure 4-9. New Frontiers for Palm Oil



Source: Data from Grain, "New Frontiers for Oil Palm," September 22, 2014, <https://www.grain.org/article/entries/5036-new-frontiers-for-oil-palm>.

In Latin America, Colombia and Brazil both have the potential to emerge as significant producers, and Papua New Guinea in Oceania has substantial potential for oil palm cultivation as shown by figure 4-9. However, poor levels of governance have led to government-issued leases apparently being used simply to clear the forest. Meanwhile, increasing imports of vegetable oils have contributed to plans to expand oil palm cultivation in India, but the fall in prices of imports from Indonesia and Malaysia since 2011 has undermined this strategy.²¹⁶

4.5. Global Palm Oil Consumption and Trade Flows

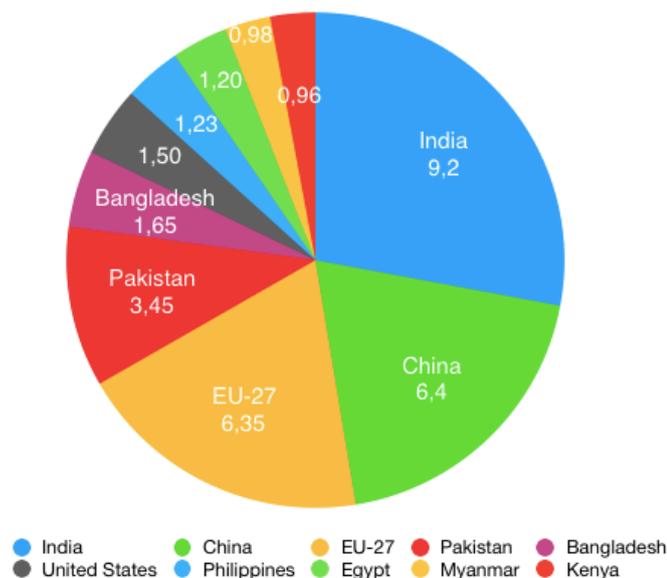
In the past decade, the global demand for palm oil has continued to upsurge. Numerous factors trigger the global demand for palm oil. As I try to identify in this section, some of them are economic growth in Asia, multi-purpose use, and price competitiveness.

²¹⁶ Brack and Wellesley, "Agricultural Commodity Supply Chains", p.13.

Economic growth in Asia and the future demand for Palm Oil

There is a major shift of global demand for palm oil from the early stage of this industry, which was dominated in European countries, to the Asian market. Asian countries such as India, China, Pakistan, and Bangladesh²¹⁷ are important trading partners, becoming four of the top five Palm oil importers, as shown in Figure 4-10.

Figure 4-10. Palm Oil Imports by Country in Million Tonnes



Source: Index Mundi, "Palm Oil Imports by Country in 1000 MT - Country Rankings," 2020, <https://www.indexmundi.com/agriculture/?commodity=palm-oil&graph=imports>.

Nowadays, India has surpassed the European Union (EU) as the world's biggest buyer of palm oil. The shipments of palm and kernel oils to this developing country climbed 32% in the year 2017 with the quantity of 7,62 million tonnes,²¹⁸ and in 2020 the import of palm oil in this country is 9,2 MT, while the European Union constituted 6,35 MT of crude palm oil (CPO) imports in 2020. India's palm oil imports rose by an average of 12% every year in the decade to 2015-2016, primarily

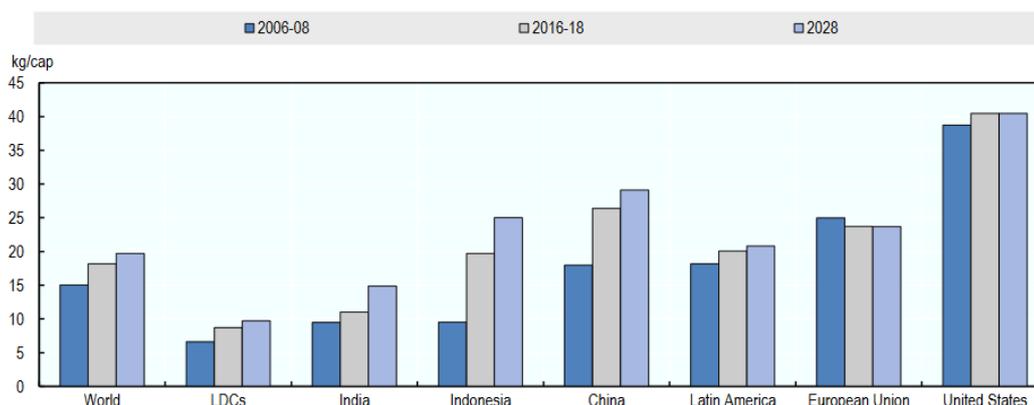
²¹⁷ India, China, EU-27, Pakistan, Bangladesh have imported 9,2 million, 6,46 million, 6,35 million, 3,45 million and 1,65 million tonnes respectively in 2020.

²¹⁸The total production of Indonesian palm oil in 2017 was 42.04 million tons with a total export of 31.05 million tons worth 22.97 billion US dollars. The palm oil production in 2016 was 35.57 million tons with a total export of 25.11 million tons worth 18.22 billion US dollars. Of the total export of 42 million tons, the largest export was to India with 7.62 million tons, Europe with 5.02 million tons, China with 3.71 million tons, Africa with 2.87 million tons, Pakistan with 2.21 million tons, Middle East with 2.21 million tons, Bangladesh with 1.25 million tons, and the United States with 1.18 million tons.

from Indonesia and Malaysia, driven by the lower price and proximity of production like shorter shipping. Unfortunately, the import market in India is not sustainability-driven and less concerned with environmental ethics. No Deforestation, No Peat, No Exploitation (NDPE) policies do not cover 58% of the imports.²¹⁹ Indonesia, is also trying to open new markets to Chile, Turkey, Middle East, and Africa.²²⁰

A growing population, income growth, urbanization, changing workforce structures, demographics, consumption patterns, and domestic production have contributed to the increase of demand for Palm Oil in Asian countries, especially in China and India. The growing population increases the demand for crude palm oil (CPO), and the economic growth increases consumption. Figure 4-11 shows that the annual per capita consumption of major vegetable oils in selected countries has increased over time.

Figure 4-11. Per-Capita Food Availability of Vegetable Oil in Selected Countries



Source: OECD-FAO, *Agricultural Outlook 2017-2026* (Paris: OECD/FAO, 2017).

China's per capita consumption of edible oil (30 kg per capita) has exceeded the level of EU industrialized countries with an average annual growth rate of 0.4%. Moreover, it stabilized at 27 kg per head. Indonesia increased two-fold in one decade from 10 kg to 22kg. Although in comparison to the per capita consumption

²¹⁹ Soumya Sarkar, "As World's Largest Importer of Palm Oil, India Has a Duty to Push for Ethical Production Practices," *Scroll.in*, July 13, 2020, <https://scroll.in/article/967186/as-worlds-largest-importer-of-palm-oil-india-has-a-duty-to-push-for-ethical-production-practices>.

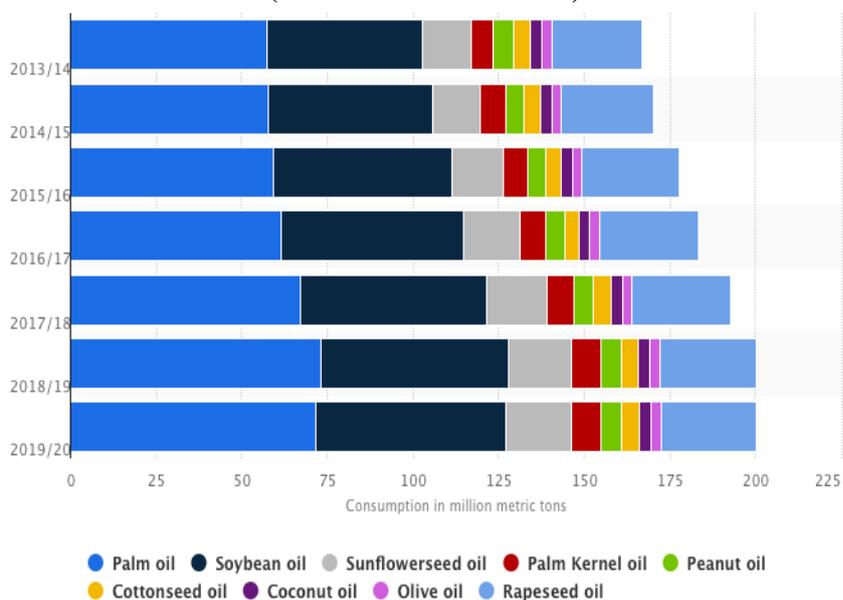
²²⁰ Rusmana and Listiyorini, "Indonesia Palm Oil Exports to India Seen at Record on Demand - *Bloomberg*."

in the United States, the consumptions of both countries are still below the average. India, the second-largest consumer of vegetable oil, is projected to maintain a high per capita consumption growth to reach 15 kg per capita in 2028.

Competitive Price

The market potential for oils and fats remains promising into the future with the increase of population and consumption and other factors as stated above. However, palm oil still faces challenges and competes with other world vegetable oils because they are inter-substitutable. Nevertheless, palm oil dominates the global vegetable oil market due to its lower production cost and higher yield than other seed-based oils. Figure 4-12 shows the global consumption of vegetable oils from 2013 to 2020. In 2020 global vegetable oil production amounted to around 203.91 million metric tonnes, with palm oil accounting for 35 % of the global production with 71.48 MT, followed by Soybean Oil and Sunflower with 55.46 19.33 MT, respectively.

Figure 4-12. Consumption of Vegetable Oils Worldwide from 2013-2020 (in million metric tons)



Source: Data from Gerrit Wunsch Nils, "Global Vegetable Oil Consumption, 2019/20," Statista, November 25, 2020, <https://www.statista.com/statistics/263937/vegetable-oils-global-consumption/>.

It is projected that palm oil will continue to be one of the highest trade shares of vegetable oils commodities. It is projected that in the next decade, the growth of the world soybean trade led by the United States will slow down significantly, which is directly related to the expected slowdown in the scale of China's imported

soybeans. At the same time, Brazil will consolidate its position as the world's largest soybean exporter,²²¹ and the United States become the largest soybean oil consumer, with a total consumption of approximately 10.07 tons in 2018.²²² In addition to soybeans, sunflower is also a competitor to palm oil. The increase in sunflower production, mainly in the Russian Federation and Ukraine, helped offset the decline in rapeseed production in the European Union. Currently, Italy is the leading soybean producer in the EU, followed by France and Romania.²²³

As they compete for a share in the global vegetable oils market, palm oil is affected by the price movements, and one crucial reason for palm oil's growing popularity appears to be price. The price of palm oil and other types of vegetable oil has fluctuated throughout the years and palm oil is by far the cheapest vegetable oil on the world market. Figure 4-13 shows that sunflower oil has the highest price, while palm oil price registers the lower price. The sunflower oil has registered an average price of 875 EUR/tons, while palm oil recorded an average price of 640/tons in September 2020.

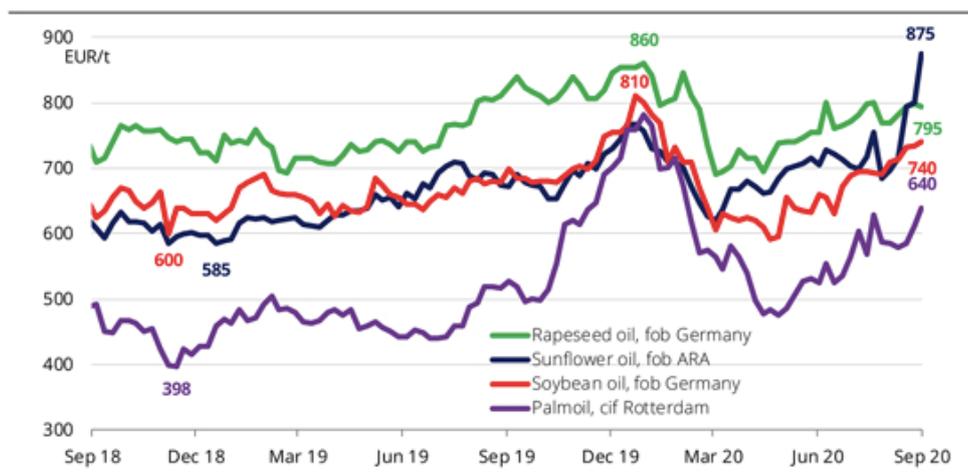
²²¹ Phillip Baker et al., "Ultra-processed Foods and the Nutrition Transition: Global, Regional and National Trends, Food Systems Transformations and Political Economy Drivers," *Obesity Reviews* 21, no. 12 (December 2020), <https://doi.org/10.1111/obr.13126>.

²²² M Shahbandeh, "Worldwide Production Major Vegetable Oils, 2012-2021," *Statista*, accessed August 1, 2021, <https://www.statista.com/statistics/263933/production-of-vegetable-oils-worldwide-since-2000/>.

²²³ Roswitha Krautgatner et al., "EU-28 Oilseeds and Products Annual 2018," EU-28 Oilseeds Report Annual 2018 (USDA Foreign Agricultural Service, 2018), https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=Oilseeds%20and%20Products%20Annual_Vienna_EU-28_3-29-2018.pdf, p. 13.

Figure 4-13. The Wholesale Prices of Vegetable Oil

Wholesale prices of vegetable oils



Source: AMI

Note: ARA = Antwerpen, Rotterdam, Amsterdam

Source: Data from UFOP, "Chart of the Week: Production of Oilseed Crop in Million Tonnes," *ufop.de*, 2020, <https://www.ufop.de/english/news/chart-week/>.

Palm Oil's price experienced an increase during 2019, after the declined price in 2018. Dry seasons in the latter half of 2019 across the central growing regions of Southeast Asia and reduced fertilizer applications by producers, the spread of COVID 19 forced the temporary closure of several large palm oil plantations, which disrupted the harvesting activities of the world's most extensive palm oil plantations. Slowly affect production speed and world market price.²²⁴ While the decrease in Palm Oil price in 2018 was believed caused by some regulations from the leading importer countries. Among others was the proposal of the European Union to ban the use of palm oil in biofuel from 2021, followed by India, which raised the palm oil import taxes, and the decision of China, the second-biggest palm oil consumer, to shift from palm oil consumption to soybean oil.²²⁵

Nevertheless, the palm oil price is currently predicted that April-end stocks would rise by 9% due to slowing exports, rising vegetable oil production, and rising fuel

²²⁴ FAO, *Food Outlook: Biannual Report on Global Food Markets, June 2020*. (Rome, Italy: Food & Agriculture Org, 2020).

²²⁵ Indonesia Investments, "Palm Oil Price Fell in Q1-2018, Uncertain Impact of Trade War," Indonesia Investments, April 6, 2018, <https://www.indonesia-investments.com/id/news/todays-headlines/palm-oil-price-fell-in-q1-2018-uncertain-impact-of-trade-war/item8712>.

demand. This demand makes palm oil a more attractive option for biodiesel feedstocks.²²⁶

The main possible factors behind the competitiveness of Palm Oil prices are lower production costs and higher yields compared with other major vegetable oils. With year-round harvesting, lower labor costs, lower wages paid to workers, and other operative costs, compared with other large vegetable oils, palm oil is the cheapest oil that can be produced per ton. One example is in Indonesia, the production cost of palm oil estimates at around 200 USD per ton and even including depreciation of capital investments at 127 USD per ton.²²⁷ Consequently, Indonesia is one of the lowest-cost producers of vegetable oil in the world. Compared to the rapeseed oil in Europe, the total production costs range between 934 to 1,073 EUR/ha. The EU Commission follows a strict quality policy in the production of rapeseed. Even the producers with contracts with less strict standard requirements for seed are also eligible for compensation payments.²²⁸ Inevitably, palm oil is seen as an attractive crop compared to other vegetable oils to be further developed.

At least five factors will impact palm oil prices as described above: supply and demand, prices of competing vegetable oils (especially soybeans), weather conditions, import policies of importing countries, changes in taxation, and export-import duties. Many nations, mainly in Europe, demand more restrictions and regulate deforestation due to palm oil in Indonesia. Indonesia has either decreased the land used for palm oil or increase its production. Indonesia meets a conflicting situation. She requires exports and high inflows of investor money into its financial sector. It can be said that Indonesia is standing in between short-term financial stability or beyond high long-term economic growth, possibly finding other alternatives to shift from the dependence on oil palm expansion.

²²⁶ The Economic Times, "Palm Oil Prices: Palm Oil Rises from Nine-Month Lows as Crude Prices Gain - The Economic Times," The Economic Times, May 05, 2020. <https://economictimes.indiatimes.com/markets/commodities/news/palm-oil-rises-from-nine-month-lows-as-crude-prices-gain/articleshow/75547381.cms>.

²²⁷ Donald Larson, *Indonesia's Palm Oil Subsector* (Washington DC: The World Bank, 1996), <https://doi.org/10.1596/1813-9450-1654>.

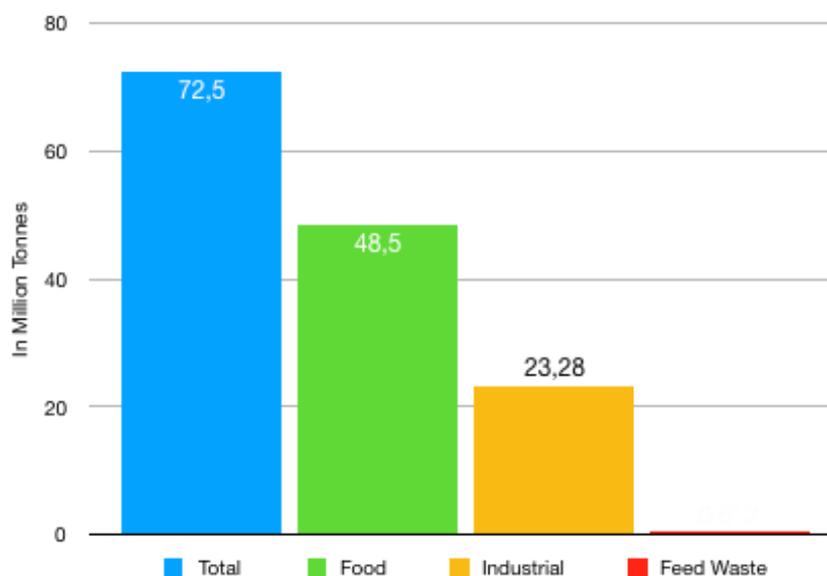
²²⁸ Sergiy Parkhomenko, "International Competitiveness of Soybean, Rapeseed and Palm Oil Production in Major Producing Regions" (Federal Agricultural Research Centre (FAL), 2004), https://literatur.thuenen.de/digbib_extern/bitv/zi032245.pdf, pp. 111-112.

In maintaining the export of palm oil products, Indonesia should face another barrier which is the regulation, for example like dumping. In the United States, the government has just set *anti-dumping* duties on biodiesel imports from Argentina and Indonesia.²²⁹ This kind of challenge will affect the palm oil export from Indonesia. The non-trade barriers, for example, labeling, and deforestation are some other challenges that have to be faced and will affect the competitiveness.

Increasing demand by non-food industries

The world demand for palm oil has climbed in the last two decades with the increasing global population and the globalization of agriculture. Palm oil is predominantly used as edible oil. However, at the same time, industrial uses, including biofuel and cosmetics, are constantly expanding.

Figure 4-14. Global Palm Oil Market Volume Share by Use



Sources: Author's calculation from Index Mundi, 2020:

<https://www.indexmundi.com/agriculture/?commodity=palm-oil&graph=food-use-domestic-consumption>,
<https://www.indexmundi.com/agriculture/?commodity=palm-oil&graph=feed-waste-domestic-consumption>
and <https://www.indexmundi.com/agriculture/?commodity=palm-oil&graph=industrial-domestic-consumption>.

Figure 4-14 shows the global consumption of palm oil for food, industrial use, and feed waste for animal food. The global annual palm oil consumption exceeded 72,5

²²⁹ Reuters, "Indonesia to Challenge Latest U.S. Biodiesel Duty Ruling at WTO | Reuters," February 23, 2018, <https://www.reuters.com/article/idUSKCN1G70KL>.

MT in the fiscal year 2020. Nearly 67 percent of palm oil is used in foods. At the same time, industrial uses, including biofuels and cosmetics, are increasing and now account for nearly 32 percent of total consumption, compared to 22 percent in the Fiscal year 2006/07.²³⁰

Although this figure does not mention industrial uses in detail, many people believe that it is closely related to the biodiesel industry's growth. Global energy consumption is predicted to increase by 50 percent by 2030. Approximately 95 percent of global energy comes from fossil fuels. The development of alternative fuels is driven by two factors: first, the need to find cheaper energy sources, and second, the need to reduce greenhouse gas emissions, which has led to unprecedented levels of biofuel production in the past ten years. Biofuels are renewable and come from agricultural products such as sugarcane, oil plants, forest biomass, and other organic substances.²³¹

The accelerating of oil palm expansion was in line with the increasing global market demand for alternative energy. Alternative energies were first developed in the 1970s, where biofuel as part of the renewable energy concept was introduced as part of an effort to move beyond the development of nuclear and fossil fuels and became a global program, triggered by the soaring of fossil fuel price to 100 US\$/barrel as of October 2007, the never-ending war in the Middle-East, the declining fossil fuel deposits, exacerbated by the worsening global climate from use of fossil fuels and coals. Many countries, including Indonesia, started to consider finding alternative fuels, which are certainly promising. As fuel prices went back to normal, the program was then diminishing. However, in the recent decade, the world is now aware of the importance of using renewable energy as the climate crisis caused by fossil fuels calls for more concern.²³²

²³⁰ Gerrit Wunsch Nils, "Global Vegetable Oil Consumption, 2019/20," Statista, November 25, 2020, <https://www.statista.com/statistics/263937/vegetable-oils-global-consumption/>.

²³¹ José C. Escobar et al., "Biofuels: Environment, Technology and Food Security," *Renewable and Sustainable Energy Reviews* 13, no. 6–7 (August 2009): 1275–87, <https://doi.org/10.1016/j.rser.2008.08.014>, p. 1277.

²³² Koesnadi Wirasaputra and Rukaiyah Rofiq, *Biofuel, a Trap, Notes from the Heart of Sumatra: Jambi, Riau and South Sumatera* (Indonesia: Setara Jambi, 2009), pp. 2-4.

Table 4-4 shows the domestic palm oil consumption by country and the end-use. India, the leading consumer, uses 94% of palm oil for food, while Indonesia uses palm oil predominantly for industrial, similar to the EU-27.

Table 4-4. Palm Oil Domestic Consumption by Country in 1000 MT

Countries	Food Use	Industrial	Feed Waste	Total
India	8,850	580	-	9,430
Indonesia	6,100	8,500	275	14,875
China	4,045	2,400	-	6,445
Pakistan	3,255	70	75	3,400
EU-27	2,850	3,550	100	6,500
Bangladesh	1,500	150	-	1,650
Thailand	1,300	1,410	40	2,750
United States	1,220	275	-	1,220
Nigeria	1,160	240	-	1,400
Egypt	1,100	75	-	1,175
Philippines	1,050	200	-	1,250
Myanmar	990	0	-	990
Viet Nam	903	0	7	910
Kenya	830	0	-	830
Malaysia	700	2,700	75	3,475

Source: Author's calculation from Index Mundi, "Palm Oil Food Use Domestic Consumption by Country in 1000 MT - Country Rankings," 2020, <https://www.indexmundi.com/agriculture/?commodity=palm-oil&graph=food-use-domestic-consumption>.

In 2009, the EU agreed on a mandatory blending quota of 10% agrofuels in the transportation sector by 2020 (Renewable Energy Directive or RED), further stimulating imports of both CPO and processed agrofuels. Apart from the EU, the Indonesian government used biofuels for transport mandatory and established blending targets at 5% in 2006, 10% in 2010, and increasing to 25% by 2025.²³³

Since 2006, biofuels have increasingly attracted the Indonesian government's interest in their potential to rely on fossil fuels. A biofuel blueprint plan is well formulated, furnished with a highly ambitious target. It intends to immediately accelerate the creation of prosperity, alleviate poverty, reduce unemployment, and boost economic growth. The government's plan for 2010 is to fulfill 10% of the energy need with biofuel, estimating the biofuel need to reach four kilo litres. Up to 2010, 24.4 million ha of land have been reserved for oil palm plantations.²³⁴

²³³ Obidzinski et al., "Environmental and Social Impacts of Oil Palm Plantations and Their Implications for Biofuel Production in Indonesia", p. 1.

²³⁴ Wirasaputra and Rofiq, *Biofuel, a Trap, Notes from the Heart of Sumatra: Jambi, Riau and South Sumatra*, pp. 32-34.

The Indonesian government is still continuing the plan to use biofuel. The state decided to reduce energy subsidies and successfully reallocate Rp.186 trillion to nine sectors, health, education, rural development, border areas, agriculture, housing, transportation, and sub-national infrastructure. At the same time, the government is placing a strong emphasis on renewable energy to 6-10 %, on the expanded use of biodiesel, bioethanol, and other types of bioenergy. The establishment of natural power generators and energy mixing demonstrates the commitment to sustainable energy, contributing to the goal of SDGs to "ensure access to affordable, reliable, sustainable and modern energy for all."²³⁵ However, the plan to expand palm oil according to the previous ambitious agenda is not stated in the development plan. On the contrary, it is to increase productivity without expansion of territory.

Bioenergy has both positive and negative impacts on climate change. Consumer countries need to consider the upstream impacts of their biofuel mandates and targets, including social and environmental impacts, while in producer countries, it is critical to balance production targets with environmental and social concerns, including food security.²³⁶ Biofuels may exacerbate the food price crisis, make it more difficult for the poor to obtain food, and reduce the food consumption of infants and preschoolers, although the creation of agricultural value in some areas will accelerate due to increased incomes of small farmers.²³⁷ In addition, Palm oil, compared to soybean oil, is free from trans-fatty acids because it does not require a hydrogenation process. Therefore, palm oil promotes lower cholesterol levels and heart disease. This is another factor favoring palm oil to another vegetable oil like soybean.

For the next decade, the increasing demand for palm oil production will remain high due to the growth of the world population. The world population has triggered the global demand for food and energy. According to the data, currently, there are 7.6

²³⁵ UNDP, "Converging Development Agendas: Nawa Cita, RPJMN and SDGs", p. 6.

²³⁶ Elizabeth Cushion, Adrian Whiteman, and Gerhard Dieterle, *Bioenergy Development: Issues and Impacts for Poverty and Natural Resource Management* (Washington DC: World Bank, 2010), <https://openknowledge.worldbank.org/handle/10986/2395>.

²³⁷ Mark Rosegrant, "Biofuels and Grain Prices: Impacts and Policy Responses," *International Food Policy Research Institute*, May 7, 2020, p. 4.

billion people on earth.²³⁸ In the 2030 Agenda for Sustainable Development, the world population is calculated to upsurge to 8.5 billion in 2030, 9.7 billion in 2050, and 11.2 billion in 2100. Nearly this population growth will take place in developing countries. This growth will occur in Sub-Saharan Africa and Asia, and India will overtake China as the world's most populous country.²³⁹ Given their strong population growth, India and Sub-Saharan Africa will also drive a large share of the global demand. They will demand several vital commodities, including rice (where India alone accounts for 27% of the increase in consumption) and other coarse grains (where Sub-Saharan Africa accounts for 41% of the global consumption increase).²⁴⁰

However, when the Indonesian government learns from this projection, the global demand in the future will be shifted, and the need for ethanol and biofuel will be replaced with food crops. The global need is changing, and the constraints and concerns over sustainability are expected to significantly limit the growth of the cultivation area for palm oil as compared to the last and present decade.

4.6. Global Value Chain of Palm Oil Industry – Palm Oil Product Flow and Key Actors in Palm Oil Industry

Value chain denotes a chain of activities performed to bring a product to the market; this includes product design, production, and marketing. Global value chains focus on the relationship between buyers and sellers and the flow of goods or services from the seller to the buyer. However, not all participants in the supply chain benefit equally — some are excluded from the benefits of growth. The asymmetry of most supply chains is getting stronger and stronger because the benefits of growth tend to accumulate in downstream businesses where purchasing and retailing occur. Therefore, product flow is one of the critical aspects of value chain analysis. After analyzing the agricultural value chain of developing countries, Trienekens determined the essential components of the value chain framework, namely value creation, the horizontal and vertical integration structure of the chain network, and

²³⁸ World Population Review, “2020 World Population by Country,” *World Population Review*, 2020, <https://worldpopulationreview.com/>.

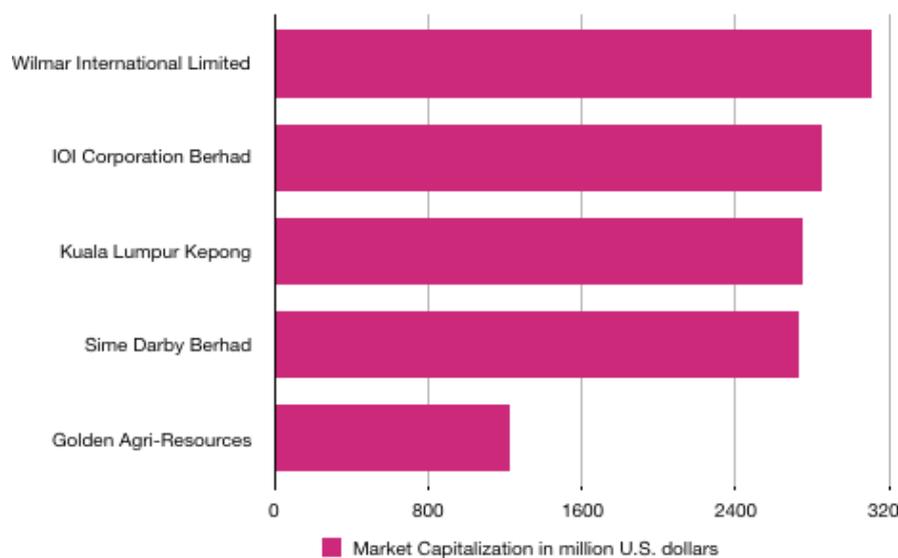
²³⁹ UN, “The World Population Prospects: 2015 Revision,” Report (New York: United Nations Department of Economic and Social Affairs, 2015), [world-population-prospects-2015-revision.html](https://www.un.org/en/development/desa/population/publications/world-population-prospects-2015-revision.html), pp. 3-4.

²⁴⁰ *Ibid*, pp. 22-23.

governance rules. He also pointed out that as the global power of Western retailers and industries grows, the asymmetric power structure is a significant obstacle for developing countries.²⁴¹

The commodities that result from oil palm refining are used widely in manufacturing and industry. Wilmar International is the largest global palm oil trader, as shown in Figure 4-15.

Figure 4-15. Leading palm Oil Companies



Source: Data from M Shahbandeh, "Ranking Palm Oil Companies Worldwide 2020," Statista, January 28, 2021, <https://www.statista.com/statistics/477252/leading-global-plam-oil-companies-based-on-market-capitalization/>.

Wilmar International Limited is an agribusiness headquartered in Singapore. It is the world's leading palm oil production company by market value. Wilmar's palm oil market capitalization in 2018 amounted to 3,11 billion USD, followed by the Industrial Oxygen Incorporated Group (IOI), which owns two palm oil refineries in Malaysia and four oleochemical manufacturing plants in Malaysia and Germany. Its downstream goods are distributed to more than 80 countries around the world.²⁴²

²⁴¹ Jacques H. Trienekens, "Agricultural Value Chains in Developing Countries: A Framework for Analysis," *International Food and Agribusiness Management Review*, vol. 14, issue 2 (2011): 51-82, <https://doi.org/10.22004/AG.ECON.103987>.

²⁴² IOI Oleo, "IOI Group, Visions and Values," *IOI Oleo GmbH*, 2020, <https://www.ioioleo.de/en/about-us/ioi-group/>.

The processing manufacturers are situated in various locations in Indonesia, Malaysia, Singapore, China, and many other consumer countries, especially where transnational corporations' manufacturers are present.

They are dominated by a small number of enterprise groups engaged in manufacturing, processing, and trading. These groups get palm oil from their plantations and various third-party suppliers. In Malaysia, they control 445 fresh fruit bunches (FFB) mills, 44 Palm Kernel crushers, 52 refineries, and 19 oleochemical plants. In contrast, in Indonesia, they control an estimated 40 refineries, source from about 850 mills, and control about 1600 plantations, about 60% of the national production, and their market share in processing and trade reaches about 90% of the total supply. However, the information about the number of companies, their ownership, and the size of their landholdings is unreliable in Indonesia because Indonesian law makes it illegal to share information about concessions boundaries.²⁴³

The downstream industries to add value to exports developed more slowly in Indonesia than in Malaysia. Indonesia's CPO was shipped to Malaysian companies to refine before being exported once again. Even before 2008, more than half of the Indonesian palm oil was exported as Crude Palm Oil (CPO). The export tax on refined oil was reduced from 25% to 10% in 2012 and was 0% in 2014. In 2015, an export levy of US\$ 50/t was introduced primarily to support a biofuel policy to convert 20% of diesel consumption to biofuels.²⁴⁴

The traders and processors are supplying the crude palm oil and palm kernel oil to a diverse number of end-users, including retailers of food, chemical, pharmaceutical, and cosmetic industries. Tracing at the global value chain of palm oil, there are prominent industrial/end-user companies from diverse groups, from food products to personal care and cosmetics and energy or fuel companies. Two

²⁴³ Pacheco P. et al., *The Palm Oil Global Value Chain: Implications for Economic Growth and Social and Environmental Sustainability* (Indonesia: CIFOR, 2017), <https://doi.org/10.17528/cifor/006405>.

²⁴⁴ Derek Byerlee, Walter P. Falcon, and Rosamond L. Naylor, *The Tropical Oil Crop Revolution: Food, Feed, Fuel, and Forests, The Tropical Oil Crop Revolution* (Oxford: Oxford University Press, 2020), <https://oxford.universitypressscholarship.com/view/10.1093/acprof:oso/9780190222987.001.0001/acprof-9780190222987>, pp. 27-28.

food companies among the world's largest end-users are Unilever²⁴⁵ and Nestlé.²⁴⁶ Unilever purchases 500,000 tons of raw material palm oil and palm kernel oil each year, and 1 million tons of derivatives and distillates account for 2.6% of global palm oil production. Nestlé is named the world's leading nutrition, health, and wellness company, with approximately 2,000 global and local brands. It reports 468 factories in 86 countries and around 330,000 employees. In October 2103, Nestlé processed 800,000 tons of palm oil annually in about 70 countries, including India and China. The other food processing companies are Danone and Heinz. Danone was buying 31,000 tonnes in 2013 and Heinz for 2,500 tonnes. The non-food-processing companies are Protector & Gamble,²⁴⁷ Henkel,²⁴⁸ and L'Oreal, which claim to serve 4.6 billion of the seven billion people on earth.²⁴⁹

These three companies are producing cosmetics and other household products. Therefore, it is difficult to deny that almost all people eat or consume palm oil since it can be found in about half of all packaged products sold in the supermarket.²⁵⁰

Palm Oil Buyers Scorecard of 2020 was published by the World Wide Fund for Nature (WWF),²⁵¹ which assessed 173 retailers, manufacturers, and foodservice companies implementing and demonstrating ethical supply chain commitments in the palm oil sectors. Actions from companies need to be pro-environment, pro-people and support sustainable palm oil. There are 22 points based on the performance indicators, with 16 points relating to its supply chain and 6 points beyond its supply chain. Some of the points relate to no-deforestation and no-conversion commitment, traceability of the supply chain, commitments in supporting smallholders, restoring forest and conservation projects. Table 4-5 below shows the Top 10 sustainable retailers and manufacturers according to the scorecard.

²⁴⁵ See: Unilever, "About Unilever," Unilever global company website, 2020, <https://www.unilever.com/about/who-we-are/about-Unilever/>.

²⁴⁶ See: Nestlé, "Facts and Figures," Nestlé Global, 2020, <https://www.nestle.com/investors/annual-report/facts-figures>.

²⁴⁷ See: P&G, "Wer Wir Sind | Procter and Gamble," P&G, 2020, <https://de.pg.com/wer-wir-sind/>.

²⁴⁸ See: Henkel, "Company," Henkel, 2020, <https://www.henkel.com/company>.

²⁴⁹ See: L'Oréal Paris, "Entdecken Sie uns und unsere Vision," L'Oréal Paris, L'Oréal Paris, 2020, /über-uns.

²⁵⁰ WWF, "Which Everyday Products Contain Palm Oil?," World Wildlife Fund, 2020, <https://www.worldwildlife.org/pages/which-everyday-products-contain-palm-oil>.

²⁵¹ WWF, "Palm Oil Buyers Scorecard 2020, Measuring the Progress of Palm Oil Buyers."

Table 4-5. Top 10 Sustainable Retailers and Manufacturers

 Retailers Score Table		
Company	Country	Total Score
EDEKA Zentrale AG & Co.KG	Germany	19.8
Kaufland Stiftung & Co.KG	Germany	19.3
IKEA	Sweden	19
Marks & Spencer	United Kingdom	18.8
ALDI South Group	Germany	18.3
Dm-drogerie markt Gmbh +Co.KG	Germany	18
The Co-operative Group UK	United Kingdom	18
REWE Group	Germany	17.8
Rossmann	Germany	17
Coop Switzerland	Switzerland	16.9
 Manufacturers Score Table		
Company	Country	Total Score
Ferrero	Italy	21.5
L'Oreal	France	19.3
Bahlsen GmbH & Co.KG	Germany	18.5
Mars, Incorporated	USA	17.3
FrieslandCampina	Netherlands	17
Nestlé	Switzerland	17
BASF Personal Care and Nutrition GmbH	Germany	16.8
Cérélia	France	16.8
The Hershey Company	USA	16.5
Vandermoortele NV	Belgium	16.5

Source: WWF, "Palm Oil Buyers Scorecard 2020, Measuring the Progress of Palm Oil Buyers."

No company scored full marks. However, Ferrero from Italy scores more than 21.5 out of 22. EDEKA, Kaufland, L'Oréal and IKEA score more than 19. These companies have ensured sustainable and traceable palm oil used along their supply chains and supporting the industry's sustainability. This situation has given an encouraging signal to the industry that sustainable and deforestation-free palm oil is achievable.

4.7. Certification Schemes in Palm Oil Industry

The most prominent certification schemes in the palm oil industry are described in the following section. The schemes are both voluntary and mandatory, from private and state initiatives. The comparison between the voluntary and mandatory certifications will also be added comprehensively.

Roundtable on Sustainable Palm Oil (RSPO) and RSPO Next

The negative environmental and social impacts of the rapid palm oil expansion and the industry's exposure to negative publicity have raised criticism for NGOs and

scientists both in Southeast Asia and in Europe, supported the introduction of voluntary certification schemes to deal with sustainability concerns.²⁵² One of the schemes is certification by Roundtable for Sustainable Palm Oil (RSPO), established in 2004 as a reaction to campaigns, especially on deforestation and orangutan extinction.

RSPO is a global, multi-stakeholder sustainable palm oil initiative headquartered in Kuala Lumpur, Malaysia. RSPO members include oil palm growers, palm oil processors and traders, consumer product manufacturers, retailers, banks and investors, environmental and nature conservation NGOs, and social and development NGOs.²⁵³²⁵⁴ They can be seen in the figure 4-16 below:

Figure 4-16. Players in the Sustainable Palm Oil Supply Chain



Source: RSPO, "Our Organisation," <https://rspo.org/about/our-organisation>.

²⁵² Melanie Pichler, "'People, Planet & Profit': Consumer-Oriented Hegemony and Power Relations in Palm Oil and Agrofuel Certification," *The Journal of Environment & Development* 22, no. 4 (December 1, 2013): 370–90, <https://doi.org/10.1177/1070496513502967>, pp. 370-372. <https://doi.org/10.1177/1070496513502967>, 370-372.

²⁵³ RSPO, "Our Organisation," RSPO, 2020, accessed December 7, 2020, <https://rspo.org/about/our-organisation>.

²⁵⁴ Herry Purnomo et al., "Reducing Forest and Land Fires through Good Palm Oil Value Chain Governance," *Forest Policy and Economics*, Volume 91, (June 1, 2018): 94–106, <https://doi.org/10.1016/j.forpol.2017.12.014>, p. 104.

With more than 3,000 members worldwide, RSPO is one of the most critical and contested voluntary certification schemes that aims at the sustainable production of palm oil along the palm oil value chain.

As a non-profit organization, its objective is to promote sustainable palm oil through credible international standards along the supply chain from growers to end-users. The standards are being adopted to principles and criteria in 2005, revised in 2007, and 2013. The RSPO is currently revising other criteria, among others is a requirement to identify, enhance and maintain High Carbon Stock (HCS) and High Conservation Values (HCV) forest. The Principles and Criteria of RSPO certification are shown in Figure 4-17:

Figure 4-17. Principles and Criteria of RSPO Certification



Source: RSPO, "Principles and Criteria for the Production of Sustainable Palm Oil 2013," https://www.rspo.org/file/RSPO%20P&C2013_with%20Major%20Indicators_Endorsed%20by%20BOG_FI_NAL_A5_25thApril2014.pdf, p. 7.

Applying these criteria shall minimize the social and ecological negative impacts of palm oil in its producing regions. Nevertheless, to gain the certification, besides the P&C requirement, growers must be assessed by a third-party RSPO accredited certification body every five years, with an annual audit for continued

compliance.²⁵⁵ In 2019, almost 22% of world palm oil areas were certified according to RSPO criteria.²⁵⁶ To show a commitment to going above and beyond the criteria, the RSPO members can extend their voluntary criteria under RSPO NEXT due to the request of some members for additional standards to combat deforestation and implement forest protection safeguards. These voluntary add-ons criteria included: no deforestation, no fire, no planting on peat, reduction of greenhouse gas emissions (GHGs), and respect for human rights and transparency. From the members, the Colombian-based agribusiness DAABON group became the first in the world to achieve RSPO NEXT.²⁵⁷

The smallholders in Indonesia have difficulties meeting these criteria, finally selling their Fresh Fruit Bunch (FFB) to consumers in China and India at lower prices. Certification means a high financial and bureaucratic burden, and the costs are more profitable for bigger production units, which smallholders cannot afford, even when they are bounding in cooperation.

International policies are often unfair to farmers, including the finance organization. Generally speaking, banks and financial companies are reluctant to provide funds to smallholder farmers, mainly because of higher risks and more extended payback periods.²⁵⁸

In the end, RSPO provides a solution to this problem by helping some independent farmers and reducing the barriers for smallholders to adopt the certification, but for plasma farmers, the fulfillment of these criteria depends on the companies or the nucleus that shelter them. RSPO pioneers the work of human rights defenders. Even though the indigenous people are poorly represented in their scheme's governance,

²⁵⁵ Angus McInnes, *A Comparison of Leading Palm Oil Certification Standards* (UK: Forest Peoples Programme, November 22, 2017), <https://www.forestpeoples.org/en/responsible-finance-palm-oil-rspo/report/2017/comparison-leading-palm-oil-certification-standards>.

²⁵⁶ RSPO, "Press Release: Increase in Certified Smallholders & Certified Volume Detailed in RSPO Impact Report," *RSPO - Roundtable on Sustainable Palm Oil*, October 29, 2019, accessed December 7, 2020, <https://rspo.org/news-and-events/news/press-release-increase-in-certified-smallholders-and-certified-volume-detailed-in-rspo-impact-report>.

²⁵⁷ RSPO, "RSPO Next Certification Scheme to Expire," *RSPO - Roundtable on Sustainable Palm Oil*, October 16, 2020, accessed December 7, 2020, <https://rspo.org/news-and-events/announcements/rspo-next-certification-scheme-to-expire>.

²⁵⁸ Faisal Mohd Noor et al., "Beyond Sustainability Criteria and Principles in Palm Oil Production: Addressing Consumer Concerns through In-setting," *Ecology and Society* 22, no. 2 (April 17, 2017), <https://doi.org/10.5751/ES-09172-220205>.

indigenous communities are often neglected when it comes to the sustainable production of palm oil, where the most contested issue is the expansion on indigenous land.

Sustainable Agriculture Network (SAN)

The Sustainable Agriculture Network, or SAN, was established in 1997 as an association of independent non-profit organizations in the Americas, Africa, Asia, and Europe to promote agricultural activities' social and environmental sustainability by setting the best standards for practices and certification and training of rural farmers.²⁵⁹ The aims are conserving biodiversity and ensuring sustainable livelihoods by transforming land-use practices, business practices, and consumer behavior.

SAN is working in partnership with the Rainforest Alliance. In 2009 the Rainforest Alliance launched its Sustainable Agriculture standard, which continues to be developed – in 2017, it published an updated version. Certification only needs to meet a subset of the specified criteria-it requires compliance with 50% of the criteria in each principle and 80% of all applicable standards, except for the key criteria that must be met.²⁶⁰ More than 1.2 million farmers in more than 40 countries, producing 100 crops, with more than 3.3 million hectares, are certified under the SAN/Rainforest Alliance system.²⁶¹

Besides the Rainforest Alliance, in 2015, SAN collaborated with Global Good Agricultural Practices (Global GAP) to develop tools to help market access improvement for smallholders to reduce the cost and increase the efficiency of audits.²⁶²

²⁵⁹ SAN, “Sustainable Agriculture Network Our Mission,” SAN, Sustainable Agriculture Network, 2020, accessed December 7, 2020, <https://sustainableagriculturenetwork.squarespace.com/our-vision>.

²⁶⁰ McInnes, “A Comparison of Leading Palm Oil Certification Standards.”

²⁶¹ See: SAN, “Sustainable Agriculture Network Our Mission.”

²⁶² Global G.A.P, “Sustainable Agriculture Network and Global G.A.P. Collaborate to Reduce Audit Costs,” Global G.A.P, February 2, 2016, accessed December 7, 2020, https://www.globalgap.org/uk_en/media-events/news/articles/Sustainable-Agriculture-Network-SAN-and-GLOBALG.A.P.-Collaborate-to-Reduce-Audit-Costs/.

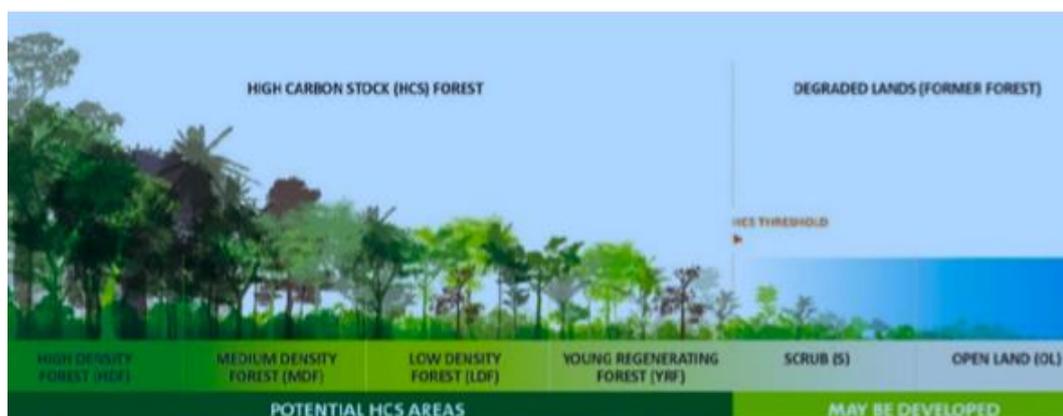
SAN strives to ensure that certification is affordable, feasible, and contributes positive value, significant to smallholders. It is being praised for its clear guidelines on the participatory mapping process and detailed guidance on matters relating to employment conditions. SAN has the strength elements standards, but the weakness is that not all the criteria are mandatory.

High Carbon Stocks Approach (HCSA) and High Conservation Value (HCV)

The High Carbon Stocks Approach (HCSA) is an integrated conservation land use planning tool, published in 2015, designed to enable companies to put their no-deforestation commitments into practice in their operations and supply chains by identifying high carbon stock forests focusing on tropical forest countries. The method is intended to be used by plantations and supply chain participants to reduce their impact by not clearing or purchasing commodities from HCS forests. This approach integrates the Free, Prior, and Informed Consent (FPIC) process to recognize the rights and interests of local communities.

HCSA has determined the types of HCS forest categories: High, Medium, and Low-Density Forest, Young Regenerating Forest, Scrub, and Cleared/Open Land, as shown in Figure 4-18. The first four courses are considered a potentially high-carbon forest that requires protection and requires two degraded land courses: low carbon scrub areas and open land to develop in any proposed plantation.

Figure 4-18. High Carbon Forest Class



Source: Environmental Investigation Agency, “Double Standards, Why RSPO Must Adopt Rather than Adapt the High Carbon Stock Approach” (Environmental Investigation Agency, July 19, 2018), , <https://eia-international.org/wp-content/uploads/Double-Standards-briefing-FINAL.pdf>.

HCSA is not conceived as a stand-alone certification system. In practice, the methodology is often carried out together with the HCV assessment and is interlinked with another certification scheme, such as RSPO, and integrated into the RSPO Principles and Criteria in the 2018 revision.²⁶³

High Conservation Value (HCV) is a biological, ecological, social, or cultural value that has outstanding importance or vital significance at the national, regional, or global level. There are six types of HCV, as shown in Figure 4-19 below:

Figure 4-19. The Six High Conservation Values



Source: HCV Resource Network, "What We Do," 2020, <https://hcvnetwork.org/what-we-do/>.

All-natural habitats have inherent protection values, including the existence of rare or endemic species, the provision of ecosystem services, sacred sites, or resources harvested by local residents.

The HCV network was founded in 2005 by a group of organizations and individuals dedicated to identifying and protecting HCV. It was initially funded through World Wild Fund (WWF) agreements with Ikea, Tetra Pak, and the World Bank, with substantial contributions from Proforest, now the secretariat, Forest Peoples Programme, and other Foundations.²⁶⁴

²⁶³ HCSA, "The High Carbon Stock Approach," *High Carbon Stock Approach*, 2020, accessed December 7, 2020, <http://highcarbonstock.org/the-high-carbon-stock-approach/>.

²⁶⁴ HCV, "Coupling High Carbon Stock and High Conservation Value Approaches to Protect Forests, Biodiversity and Livelihoods" (HCV, September 2020), http://highcarbonstock.org/wp-content/uploads/2020/09/09_2020_HCVRN_HCSA_Joint_Briefing_1.pdf, pp.1-2.

In order to achieve the protection of High Conservation Values, the network established an approach with a three-step methodology that is referenced as a tool primarily in forestry and agricultural areas. The three steps include identification, management, and monitoring. Since 2015, the Roundtable on Sustainable Palm Oil (RSPO) has required oil palm growers to hire Licensed Assessors to conduct HCV assessments before establishing any new oil palm plantings. High Carbon Stock (HCS) and High Conservation Value (HCV) methods can be used together to identify critical areas for conservation and livelihoods and support no-deforestation commitments. To strengthen cooperation, the HCV Resource Network and the High Carbon Storage Method signed a five-year memorandum of understanding (MoU) in September 2020 to protect forests in tropical forests and safeguard community rights.²⁶⁵

HCVA and HSC have supplied companies with their sustainability commitments. Nevertheless, they need to provide standards for smallholders.

According to the proposal of the High Carbon Stocks Approach (HCSA), to expand the palm oil from the High Carbon Stock Forest to the arable land is not without cost. This land is used for subsistence crop production, and the conversion will have impacts on food security, increasing poverty, and unequal inter household distribution of income.²⁶⁶

European Union Renewable Energy Directive (RED)

The European Union (EU) is leading the fight against climate change. On November 30, 2016, the European Commission launched a clean energy package, which includes a new version of the "Promotion of Renewable Energy Directive" (RE Directive) to make progress in achieving the EU's climate and energy framework 2030 goals.

Parliament and the Council provisionally agreed that by 2030, renewable energy will account for at least 32% of total final consumption by 2030, and renewable

²⁶⁵ HCSA, "Strategic HCSA-HCVRN Collaboration to Strengthen Conservation of Tropical Forests and Boost Critical Values for Nature and People," *High Carbon Stock Approach*, September 24, 2020, <http://highcarbonstock.org/press-release-strategic-hcsa-hcvrn-collaboration-to-strengthen-conservation-of-tropical-forests-and-boost-critical-values-for-nature-and-people/>.

²⁶⁶ Anggraini and Grundmann, "Transactions in the Supply Chain of Oil Palm Fruits and Their Relevance for Land Conversion in Smallholdings in Indonesia", p. 392.

energy will account for 12% of transportation energy.²⁶⁷ They agreed to revise the EU Renewable Energy Directive by gradually reducing the number of certain types of biofuels to achieve renewable energy. One of the specific categories is palm oil. Food crop biofuels, such as palm oil with high "indirect land-use change" (ILUC),²⁶⁸ proposed to be phased out. The draft law stipulates that biofuel should not account for more than 7% of final energy consumption in road and rail transportation.²⁶⁹ On January 17, 2018, the European Parliament decided to phase out palm oil into the new Renewable Energy Directive (REDII) to be included in the tasks before 2021.²⁷⁰

The purpose of this revision is to allow Europe to play a leading role in the fight against climate change. This is the goal of the Paris Agreement. In the context of sustainable development and poverty reduction, equitably limit global warming to 2°C.²⁷¹

Ironically, Europe's response to climate change has intensified the controversy surrounding palm oil. Efforts to boycott palm oil products are frequent, usually initiated by environmentalists—for example, the EU's binding biofuel target for the transportation sector in 2007. The environmentalists argued that palm oil and biofuels are the wrong solutions to climate change because they use forest fires and peatlands. The robust debate within the EU has led to a compromise that the binding target of 10% renewable energy in the transportation sector is maintained until 2010, but other energy sources such as hydrogen or electric vehicles can be used.²⁷²

²⁶⁷ EP European Parliament, "MEPs Set Ambitious Targets for Cleaner, More Efficient Energy Use," European Parliament News, January 17, 2018, <https://www.europarl.europa.eu/news/en/press-room/20180112IPR91629/meps-set-ambitious-targets-for-cleaner-more-efficient-energy-use>.

²⁶⁸ EC European Commission, "Indirect Land Use Change (ILUC)," Text, European Commission - European Commission, October 17, 2012, https://ec.europa.eu/commission/presscorner/detail/en/MEMO_12_787.

ILUC, i.e. changing how land from non-crop cultivation, such as grasslands and forests, with a negative impact on CO2 emissions, is used.

²⁶⁹ EP European Parliament, "Renewable Energy: Environment MEPs Propose Upgraded, Nationally Binding Targets," European Parliament News, October 24, 2017, <https://www.europarl.europa.eu/news/en/press-room/20171024IPR86742/renewable-energy-environment-meps-propose-upgraded-nationally-binding-targets>.

²⁷⁰ Krautgatner et al., "EU-28 Oilseeds and Products Annual 2018."

²⁷¹ EEAS, "EU's Renewable Energy Directive and its impact on Palm Oil," EEAS - European Commission, April 24, 2018. https://eeas.europa.eu/delegations/venezuela/38379/node/38379_mn.

²⁷² Pye, *The Palm Oil Controversy in Southeast Asia*, p. 4.

Responding to the EU, the leaders of both countries Malaysia and Indonesia claim that the banned policy from the EU is seen as the lobby for the soybean²⁷³²⁷⁴ and sunflower and a discriminatory policy against the commodity.²⁷⁵ Sunflower is a competitive crop to palm oil. The increase in sunflower production, mainly in the Russian Federation and Ukraine, helped offset the decline in rapeseed production in the European Union. Currently, Italy is the leading soybean producer in the EU, followed by France and Romania.²⁷⁶ It is interesting to find the contrast with the concern of activists in Indonesia. Around 236 leaders of organizations and activists sent an open letter to the President of Indonesia and the EU. They agreed with the EU to ensure renewable energy is sourced from eco-friendly businesses, practiced justice, and respected human rights. At the same time, they urged the EU to strive and work for the policy.²⁷⁷ Indonesian Palm Oil Association found the banned from the EU is not a solution. The right solution is developing sustainable palm oil plantation and industry because the palm oil industry supports Sustainable Development Goals (SDGs), such as the determination to overcome poverty and build rural areas. People in the North have to accept that the countries in the South have their rights to be developed.

However, the expected expansion of soybean and palm oil production will depend on the availability of new land, which new environmental protection laws may restrict. In addition, general problems and uncertainties for most commodities, such as the macroeconomic environment, crude oil prices, and weather conditions, significantly impact the oilseed complex.²⁷⁸

²⁷³ Ahmad Fikri, "Jokowi Sends Protest after EU Rejects Indonesian Palm Oil," *Tempo.co*, March 8, 2018, <https://en.tempo.co/read/916452/jokowi-sends-protest-after-eu-rejects-indonesian-palm-oil>.

²⁷⁴ Erwida Maulia, "Mahathir Recruits Widodo to Fight EU's Palm Oil Plan - Nikkei Asia," *Nikkei Asia*, June 29, 2018, <https://asia.nikkei.com/Politics/Malaysia-in-transition/Mahathir-recruits-Widodo-to-fight-EU-s-palm-oil-plan>.

²⁷⁵ Marguireta Afra Sapiee, "Indonesia, Malaysia Must Fight EU over CPO Ban: Mahathir," *The Jakarta Post*, June 29, 2018, <https://www.thejakartapost.com/news/2018/06/29/indonesia-malaysia-must-fight-eu-over-cpo-ban-mahathir.html>.

²⁷⁶ Krautgatner et al., "EU-28 Oilseeds and Products Annual 2018", p.13.

²⁷⁷ WALHI, "Open Letter to President and EU Commission," May 22, 2018, https://walhi.or.id/wp-content/uploads/2018/05/Open-Letter-to-President-and-EU-Commission_220518.pdf.

²⁷⁸ OECD-FAO, *OECD-FAO Agricultural Outlook 2017-2026*, pp. 102-105.

Indonesian Sustainable Palm Oil (ISPO)

Environmental groups often criticize Indonesia because it provides too much space for the development of palm oil plantations, leading to deforestation and the destruction of carbon-rich peatlands, which is facilitated by weak law enforcement.²⁷⁹ In order to overcome the criticism, the Indonesian government has made some changes for the better by issuing regulations.

The government's new regulation on peatland ecosystem management in Government Regulation No. 57/2016, as the revision of Regulation No. 71/2014, affects about 1 million hectares of palm oil plantation. The companies will have to move their plantation from the peatland they currently occupy. In addition, the Indonesian government has signed a two-year ban on primary forests, which took effect on May 20, 2011. This suspension means that the issuance of new permits to clear the country's tropical rainforests and swamps is temporarily suspended. In exchange, Indonesia received a 1 billion USD package from Norway. To safeguard a healthy and sustainable environment, in 2016, the government proposed to issue a five-year moratorium on new palm oil plantation concessions.²⁸⁰

Since the announcement of the Moratorium, the government of Indonesia has rejected proposals to convert plantations in the forest zone. According to the ministry's head of governance and planning, sixty-one palm oil companies have had their proposals rejected, with a total of 851.000 hectares of land from conversion. This banned was also applies to coal mining licenses. Both sectors are vital to Indonesia's economy but lead the way in damaging the environment. The government does not want to restrict the expansion of Indonesia's palm oil industry. Instead, it increases the productivity of existing plantations by using more effective cultivation techniques and seeds and planting new trees rather than simply adding new land.²⁸¹

²⁷⁹ Obidzinski et al., "Environmental and Social Impacts of Oil Palm Plantations and Their Implications for Biofuel Production in Indonesia", p. 1.

²⁸⁰ Indonesia Investments, "Palm Oil Industry in Indonesia - CPO Production & Export," Indonesia Investments, June 26, 2017, <https://www.indonesia-investments.com/business/commodities/palm-oil/item166>.

²⁸¹ Ibid.

Sustainable palm oil production is crucial for the palm oil industry, primarily due to large buyers' stricter social and environmental standards. To solve this problem, the Indonesian government has begun to apply sustainable palm oil standards²⁸² and a sustainability certification under the name Indonesia Sustainable Palm Oil (ISPO). The Indonesian Sustainable Palm Oil Certification System (ISPO) was introduced by the Ministry of Agriculture on behalf of the Indonesian government in 2011 as a mandatory standard. Indonesia Sustainable Palm Oil is regulated under Regulation Permentan No. 11 / Permentan / OT.140 / 3/2015 concerning the Indonesian Sustainable Palm Oil Certification System.

In 2015, ISPO was revised and became mandatory for palm oil companies and voluntary for smallholder farmers. Indonesia's sustainable palm oil aims to improve the global competitiveness of Indonesia's palm oil and place it under stricter environmental laws. All Indonesian palm oil producers must be aware of adopting a more environmentally friendly policy, and they are forced to obtain ISPO certification. All palm oil producers must adjust their operations to this standard before 2014. Otherwise, they will face the risk of losing their operating licenses. Due to its design, ISPO standards are closely related to existing legal and regulatory requirements and are sometimes referred to as the "legal standards" for Indonesian palm oil. It needs to comply with all standards to obtain ISPO certification fully.²⁸³

There are seven sets of principles and criteria of the ISPO that oil palm plantations must follow in order to obtain the sustainability certification: (1) Legal plantation business permit, (2) Plantation Management, (3) Protection of Primary Forest and Peatland, (4) Environmental Management and Monitoring, (5) Responsibility to workers, (6) Social responsibility and community economic empowerment, (7) Continuous business improvement.²⁸⁴ However, due to the lack of monitoring, the credibility of the ISPO standards is generally regarded as low. In order to enhance

²⁸² Fatwa Ramdani and Hino, "Transition of Development Policies Related to the Palm Oil Industry in Indonesia," *The Science Reports of the Tôhoku University* 59 (March 1, 2013): 31–45, pp. 39–40.

²⁸³ EFECA, "Comparison of the ISPO, MSPO and RSPO Standards," *EFECA Economic Climate Environment*, 2016, https://www.sustainablepalmoil.org/wp-content/uploads/sites/2/2015/09/Efeca_PO-Standards-Comparison.pdf, pp.1-6.

²⁸⁴ Rosediana Soeharto et al., "Joint Study on the Similarities and Differences of the ISPO and the RSPO Certification Systems" (Jakarta, Indonesia: Ministry of Agriculture of Indonesia, ISPO, RSPO and UNDP, 2015), p. 25.

the standard, the National Action Plan (NAP) was published in 2018 by the government of Indonesia with four main components: (1) Supporting smallholders (2) Environmental management and monitoring; (3) Governance and mediation of conflicts, and (4) Smallholder certification and market access. This plan was developed by the Indonesian Sustainable Palm Oil Forum (FoKSBI). This forum is a multi-stakeholder platform launched in 2014 by the Indonesian government. They are also becoming the actor to monitor the implementation of the National Action Plan (NAP).²⁸⁵

As of December 2015, 400 oil palm plantation companies have obtained Indonesia Sustainable Palm Oil (ISPO) certificates. The voluntary implementation of ISPO by independent smallholders began in 2015, and the Ministry of Agriculture has set a goal of compulsory ISPO certification for farmers by 2022.²⁸⁶ Indonesia is seeking support for its ISPO standard to ensure its success and is now part of the broader Sustainable Palm Oil (SPO) Initiative, developed with the United Nations Development Programme (UNDP) support.²⁸⁷ However, this mandatory local palm oil sustainability scheme is not internationally recognized in the global crude palm oil (CPO) market, as the level of ambition is still lower than the other scheme like Roundtable on Sustainable Palm Oil (RSPO).

The Forest People Program conducted a study to compare the world's most rigorous sustainability standards for palm oil. From all the standards, RSPO has the most robust scheme for certification while ISPO has the weakest certification process, provides very little protection of human rights and community livelihoods, and is poor in labor standards. It states the prohibition of child labor without information regarding age and other restriction details.

Between Voluntary and Mandatory Schemes

There is an argument that the rise of transnational business governance is due to the decline of state control. One of the results was the introduction of private certification to address environmental issues. Voluntary private certification is

²⁸⁵ FOKSBI, "National Action Plan - Indonesia Palm Oil Platform," FOKSBI, 2020, <http://foksbi.id/en/activities>.

²⁸⁶ EFECA, "Comparison of the ISPO, MSPO and RSPO Standards, EFECA Economic Climate Environment", pp. 1-6.

²⁸⁷ See: FOKSBI, "About Us," 2021, <http://foksbi.id/en/about-inpop>.

defined as a set of norms, rules, and decision-making procedures that are implemented across borders through non-state actors' activities that create a market-driven governance system. It is argued that there is no need for state sovereignty to enforce compliance.²⁸⁸ The further argument is that because palm oil is being sold to global consumers, the corporations should also comply with global standards beyond the state regulations. Although this scheme could be a sign of neoliberal hegemony, the risk is that governments could lose dominance when faced with the economic activities of transnational companies. One of the reasons for the Indonesian government to establish the Indonesia Sustainable Palm Oil (ISPO) is to reclaim its authority through state mandatory certification schemes. The ISPO is considered a direct response to existing global strategy and as a rival governance network to challenge the interventions from the North.²⁸⁹ Unfortunately, although ISPO is based on regulation, it cannot guarantee implementation on the ground. It is difficult to gain credibility in the global market because of the weak state law enforcement and a high level of corruption. This weak law enforcement also influences the absence of an effective system to monitor and enforce compliance of voluntary certification at the micro-level. Indonesia State has less capacity to regulate the industry.²⁹⁰

One example is that in September 2019, Greenpeace Southeast Asia exposed the Indonesian government's failure to implement the forest fire prevention law, which caused many palm oil and pulp production groups that have the largest burnt land in their concessions to either penalize, evade civil or administrative sanctions may escape hastily and receive sanctions that are not commensurate with the damage. There is limited transparency on the part of the Indonesian government regarding enforcement action against plantation companies, with no publicly available

²⁸⁸ Annisa Joviani Astari and Jon C. Lovett, "Does the Rise of Transnational Governance 'Hollow-out' the State? Discourse Analysis of the Mandatory Indonesian Sustainable Palm Oil Policy," *World Development* 117 (May 1, 2019): 1–12, <https://doi.org/10.1016/j.worlddev.2018.12.012>, pp. 1-3.

²⁸⁹ Astari and Lovett, pp. 3-4, 9-11.

²⁹⁰ John F. McCarthy, Piers Gillespie, and Zahari Zen, "Swimming Upstream: Local Indonesian Production Networks in 'Globalized' Palm Oil Production," *World Development* 40, no. 3 (March 1, 2012): 555–69, <https://doi.org/10.1016/j.worlddev.2011.07.012>, pp. 555-557.

register of cases or investigations. Which is not only found in Indonesia but also in neighboring affected countries: Singapore and Malaysia.²⁹¹

Nevertheless, the weak enforcement can also be found from inside the voluntary certificate itself towards the members. Leading consumer products companies Unilever, Mondelez, Nestlé, and Procter & Gamble (P&G) also reported the fire in Indonesia in 2019 mentioned above, including some top palm oil traders, namely Cargill, Wilmar, and Musim Mas.²⁹² It should be distinguished that all eight consumer goods companies and traders evaluated are members of Roundtable on Sustainable Palm Oil (RSPO) and even members of the board of directors-widely regarded as "sustainability leaders" in palm oil. In the first nine months of the Forest-Fire 2019, three-quarters of the fire source in the franchise was discovered in 30 RSPO members.²⁹³

For this reason, many people criticized RSPO as a transnational network's instrument to strengthen their power through certification to ensure the sustainable import of palm oil across the globe. This is also part of a broader neoliberal reorganization of palm oil expansion and environmental policy.²⁹⁴

The Indonesia Sustainable Palm Oil (ISPO) appears to be a tool serving the interests of the producers, whereas the RSPO would seem to serve the consumers. The emergence of this later certification is driven by the assumption that sufficient socially and environmentally concerned consumers are willing to pay premium products. In this multi globally complex industry, the performance issues should involve global responsibility because they relate not only to producer countries but also constitute externalities from consumers and investors as the drive to expand this commodity.²⁹⁵ The palm oil expansion is ultimately also driven by the

²⁹¹ Greenpeace, "Burning down the House: How Unilever and Other Global Brands Continue to Fuel Indonesia's Fires," Greenpeace Malaysia, November 4, 2019, <https://www.greenpeace.org/malaysia/publication/2620/burning-down-the-house-how-unilever-and-other-global-brands-continue-to-fuel-indonesias-fires>, pp. 16-17.

²⁹² RSPO, "Annual Communication of Progress," RSPO, 2019, <https://rspo.org/members/acop>. These four are consistently amongst the top-profiting global consumer brands and are amongst the top buyers of palm oil and palm oil derivatives.

²⁹³ Greenpeace, "Burning down the House", pp. 30-31.

²⁹⁴ Pichler, "'People, Planet & Profit'", p. 372.

²⁹⁵ Pablo Pacheco et al., "Governing Sustainable Palm Oil Supply: Disconnects, Complementarities, and Antagonisms between State Regulations and Private Standards," *Regulation & Governance* 14, no. 3 (2020): 568–98, <https://doi.org/10.1111/rego.12220>, p. 573.

consumer. Consumers are as much part of the problem as are the producers. Consumer behavior can and has shaped the emergence of a more socially and environmentally conscious industry. Though there is still a long way to go and much progress is needed, consumers also play an essential role in the fairness and sustainability of palm oil.²⁹⁶ The one unusual tax called The Nutella tax was waged by France at the end of 2012, following the proposal by senator Yves Daudigny to impose a surcharge on foods containing palm oil for human consumption as a response towards the consumer responsibility.²⁹⁷

As stated above, besides producer and consumer, the financial institution also plays a role in ensuring palm oil sustainability. Since 1965 and 1976, the World Bank and the International Finance Corporation (IFC) have invested in and supported palm oil development in Latin America, Africa, and Asia-Pacific. These investments in public and private sector projects focus on the primary production and downstream processing of palm oil, and in some cases, also involve complementary infrastructure, territorial development, and smallholder farming linkages.²⁹⁸ IFC's early investments in the 1970s and 1980s focused on the small-scale processing and cultivation of oil palm. Started in the 1990s, subsequent investments have been concentrated on the large-scale plantation business in Indonesia, and in 2004, the International Finance Corporation was more active in pushing the palm oil supply chain downward and has invested heavily in trade. Among others was the 'Wilmar short-term trade finance support.'²⁹⁹

Even though the World Bank announced that it would not issue any new funding for oil palm development until it had formulated a comprehensive strategy to deal with the negative issues, it continued to finance large-scale investment in this monoculture agro plantation.³⁰⁰ The modernization narrative and the transformation of agriculture along capitalist lines have systematically produced poverty alongside

²⁹⁶ Sayer et al., "Oil Palm Expansion Transforms Tropical Landscapes and Livelihoods", p. 5.

²⁹⁷ Rival and Levang, *Palms of Controversies*, p. 3.

²⁹⁸ Cheng Hai Teoh, *Key Sustainability Issues in the Palm Oil Sector: A Discussion Paper for Multi-Stakeholders Consultations* (Washington D.C, USA: The World Bank, 2010), p. 2.

²⁹⁹ Ibid, 14.

³⁰⁰ Claude Fortin, *The Biofuel Boom and Indonesia's Oil Palm Industry: The Twin Processes of Peasant Dispossession and Adverse Incorporation in West Kalimantan* (Saarbrücken: Lambert Academic Publishing, 2011), pp. 26-28.

the industry's wealth. The industry serves the interests of transnational agribusiness companies to extend the neoliberal capitalist production into the rural and forest places of the global south.

When the question comes which actors are best positioned to drive improvements in global value chain governance towards sustainability, both voluntary and mandatory, have their weaknesses and strengths. A productive new partnership between public, private, and civil society actors to formulate negotiated sustainability and instruments seems to be one best solution. Good value chain governance requires both public policy and private standards. Public policy can enforce a conducive policy environment to make sustainability possible. Private practice standards can provide market incentives to actors or firms along the chain to comply.³⁰¹

One critic of the certification system is that sustainability is becoming a purchasable commodity rather than a social and political issue.³⁰² The socio-economic and political aspects of sustainable development are often ignored. In agricultural production especially, sustainability means the increasing efficiency of productions with less land, water, and fertilizer consumption, rather than sustainability in the economic and social senses.³⁰³ With this perspective, the corporations do not address the problem causing by the expansion but the improvement of the management of their plantation industry and caring more for their brand's image. The technical-managerial debate has taken over the real struggles in the field, both people and the environment. The indigenous people's sufferings, smallholder and worker struggles, forest and biodiversity should become the starting point of all the schemes from private and state to reform the palm oil industry.

³⁰¹ Purnomo et al., "Reducing Forest and Land Fires through Good Palm Oil Value Chain Governance", p. 104.

³⁰² Oliver Pye, "Commodifying Sustainability: Development, Nature and Politics in the Palm Oil Industry," *World Development* 121 (September 1, 2019): 218–28, <https://doi.org/10.1016/j.worlddev.2018.02.014>, p. 220.

³⁰³ Mohd Noor et al., "Beyond Sustainability Criteria and Principles in Palm Oil Production", pp. 1-2.

4.8. Corporate Social Responsibility in Palm Oil Industry in Indonesia

With the increase of global economic, social, and political interaction, the states are forced to build their role and capacity. However, many countries are challenged with failed or incompetent states, continuing budget deficits, failed to deliver public services efficiently and effectively, overregulated or deregulated private companies, failure to protect vulnerable groups and the natural environment, and many other failures. From these hierarchical forms of government, there is an awareness to shift the government towards governance. Governance enables the business to develop self-regulation to cover issues that the state regulations have not addressed. In addition, to address environmental problems including forest degradation, mining destruction, and even climate change, as well as social problems including workers' and human rights, many stakeholders have turned to firms rather than governments. To tackle this situation, corporations use various efforts, including sustainability certification and Corporate Social Responsibility (CSR), to show their impacts on the communities they are operated. CSR is one example of self-regulation, where many times, the firms act and behave beyond compliance with existing laws. They invite other stakeholders like NGOs and civil society to impose norms or values to create an enormous impact. There are two different notions of CSR; one is the old form of CSR. The older efforts of Corporate Social Responsibility (CSR), historically focused on corporate philanthropic activities in the form of charity and after-profit activity. The new CSR focuses on internalizing the externalities generated by the company's core business activities.³⁰⁴ As a response to external pressures, the new form of CSR can also be developed into proactive corporate actions and attempts to control the market and the value chain.³⁰⁵ Nevertheless, states remain key players in regulating and directing

³⁰⁴ Graeme Auld, Steven Bernstein, and Benjamin Cashore, "The New Corporate Social Responsibility," *Annual Review of Environment and Resources* 33, no. 1 (2008): 413–35, <https://doi.org/10.1146/annurev.enviro.32.053006.141106>, pp. 414-415.

³⁰⁵ Eusebius Pantja Pramudya, Otto Hospes, and C. J. a. M. Termeer, "Friend or Foe? The Various Responses of the Indonesian State to Sustainable Non-State Palm Oil Initiatives," *Asian Journal of Sustainability and Social Responsibility* 3, no. 1 (December 2018): 1–22, <https://doi.org/10.1186/s41180-018-0018-y>, p. 3.

economic and political globalization, not as passive players but as primary architects.³⁰⁶

For many years Indonesia has been practicing Corporate Social Responsibility (CSR) on a voluntary basis until CSR is regulated in some laws and becomes one of the obligations that the company must implement. Followed are some regulations regarding Corporate Social Responsibility (CSR) in Indonesia:

- Law of the Republic of Indonesia number 25 the Year 2007 regarding Investment. Articles 15, 17: the company shall carry out social and cultural responsibility and preserve the environment. Article 34: for a company that cannot fulfill the obligation, an administrative sanction in the form of a written warning, business restriction, business and investment suspension, and revocation of business and investment is required.³⁰⁷
- Law of the Republic of Indonesia Number 40 the Year 2007 concerning Limited Liability Company. In Chapter 1, article 1 point 3: Every company is obliged to perform Social and Environment Responsibility. Chapter V article 74 point 2: the activities should be budgeted and calculated as corporate costs carried out concerning decency or appropriateness and fairness and reported annually. The provision regarding social and environmental responsibility shall be regulated with government regulation.³⁰⁸
- Law of the Republic of Indonesia Number 19 the Year 2003 on State-Owned Enterprises regulates the start from the amount of funds to the procedure of CSR implementation. The policy on CSR is implemented with the principle of propriety and fairness.

Besides the laws, unfortunately, the government of Indonesia does not prepare specific technical guidances on CSR project's implementation. As a result, the

³⁰⁶ Patricia Kennett, *Governance, Globalization and Public Policy* (Cheltenham: Edward Elgar, 2009), p. 11.

³⁰⁷ Indonesian Government, "Law Concerning Investment," Law of the Republic of Indonesia Number: 25 of 2007 Concerning Investment (2007), <https://investmentpolicy.unctad.org/investment-laws/laws/93/indonesia-investment-law>.

³⁰⁸ Indonesia Government, "Limited Liability Company," The Law of Republic of Indonesia No.40 of 2007 (2007), <https://cdn.indonesia-investments.com/documents/Company-Law-Indonesia-Law-No.-40-of-2007-on-Limited-Liability-Companies-Indonesia-Investments.pdf>.

companies conducting the programs based on their own self-regulatory framework and interpretations or choosing to be part of international CSR standards, such as RSPO in the palm oil industry or International Organization for Standardization (ISO) 260000 on social responsibility. To ensure the proper implementation of CSR in Indonesia, standard guidelines and procedures and authorized CSR bodies to monitor and evaluate the CSR in state and private companies are crucial. Due to the absence of the standard, the companies show less austerity in implementing CSR. One study on Corporate Social Responsibility (CSR) of palm oil companies in East Kalimantan province shows the lack of CSR to improve the community's welfare. The programs carried out are still charity, and less participation from the community throughout the process, including the planning.³⁰⁹

This finding was supported by research on the CSR activities of eight Indonesian palm oil companies. Their activities are mostly also philanthropic, which covers infrastructure, education, culture, environment, and health. Nevertheless, these companies seem to be exceptions since many firms do not disclose their CSR activities on their website.³¹⁰ The community needs sustainable community empowerment to avoid dependence on the company and ensure the community's survival in the long run. This will be possible when the palm oil companies shift their old form of philanthropy CSR to an integrated business CSR.

4.9. Interim Result

The increasing global demand for palm oil remains the main reason for the rise in palm oil prices in the international commodity market and encourages further investment, stimulates palm oil company transactions on the stock exchange, and accelerates land acquisitions. The lucrative palm oil industry and the need for economic development have motivated countries to offer attractive land acquisition terms, including low rental fees, taxation, and duties.

³⁰⁹ Fajar Apriani and Muhammad Zaini, "Corporate Social Responsibility of Oil Palm Companies in East Kutai Regency, East Kalimantan Province, Indonesia," *Management* 8, no. 1 (2018): 11–17, <https://doi.org/10.5923/j.mm.20180801.03>, pp. 1-2.

³¹⁰ Tomohide Sugino, Henny Mayrowani, and Hiroaki Kobayashi, "Determinants for CSR in Developing Countries: The Case of Indonesian Palm Oil Companies", *Japanese Journal of Agricultural Economics*, vol. 17, (2015): 18–34, DOI: 10.22004/ag.econ.242110, p. 31.

The palm oil industry has been transnational in nature from the moment the colonial rules established the oil palm plantation in Indonesia and Malaysia. Neoliberal land policies lead to land privatization, and the state actively promotes the development of large agribusiness complexes.

Its production and processing are organized in global production networks that are increasingly financialized. Producers, therefore, compete on the global market, leading to the concentration of capital and to regional production networks consisting of refineries, mills, and large-scale monoculture plantations. The states are the central actors that intervene to guarantee the profitability of palm oil's global production chain: cheap land and labor, on which the accumulation strategy relies.

The integration into the world market seems to be continued, and Indonesia prepares itself for the market's competition, which is more challenging. In addition, to be secured in the global market, people believe that "the government that governs the best is the government that intervenes the least", and the laissez-faire approach is much more effective. One question that should arise is, can Indonesia take advantage of this integration not only for the benefit of transnational corporations, to big investors with capital, but also for the common good of the people, finding the balance of the social and environment.

If the palm oil industry can be driven down a more socially sustainable path, it may hold significant potential to support development. The question is not of oil palm or not, but of how to maximize the benefits of the development while minimizing the negative social and environmental effects and continue looking for alternative set-ups that allow ecologically and socially sustainable oil palm development.³¹¹

In the next chapter, the theology and diakonia will be challenged to position themselves in this palm oil industry both globally and nationally. How to build a new understanding of globally responsible diakonia will be a further question.

³¹¹ Lucy Rist, Laurène Feintrenie, and Patrice Levang, "The Livelihood Impacts of Oil Palm: Smallholders in Indonesia," *Biodiversity and Conservation* 19 (April 1, 2010): 1009–24, <https://doi.org/10.1007/s10531-010-9815-z>, pp. 1020-1022.

Chapter 5

From Free Market towards Embedded Economics

This chapter will focus on a descriptive analysis of economics and business ethics, the normative fundament of a free-market economy, and the theological perspective of the global economic system. Integrating economics, theology, and ethics will make the development of embedded economics ethics and global diakonia movement in the palm oil industry more comprehensive. The philosophies or principles of the free market will be discussed together with a theological understanding to balance my standpoint in this chapter.

5.1. Economic Globalization

Globalization, privatization, and liberalization are multidimensional phenomena that have implications for the economic and the socio-cultural and environmental aspects of countries and societies. Globalization assumes that economic, political, social, cultural, and legal relationships continue to expand and strengthen across borders. It is furthered by reductions in transportation and communication costs, the rise of new information technologies, such as the internet, and liberalizations in the markets for goods, services, labor, capital and technology. Globalization involves political decisions about deregulation, free trade and the integration of markets. It changes people's lifestyles and living conditions worldwide, presenting new opportunities to some, but risks and threats to others. It brings different consequences in the process.

The era of globalization has been characterized by a worldwide process of 'transition to the market.' The first-generation doctrines focus on price and trade liberalization, while the second-generation doctrines focus on privatizing public assets. The third-generation doctrines focus on the liberalization of domestic and international finance, which are meant to be strictly in line with the market principles.³¹²

³¹² Dic Lo, *Alternatives to Neoliberal Globalization* (London: Palgrave Macmillan UK, 2012), p. 3.

Since the intensification and consolidation of contemporary neoliberal globalization in the 1980s, its hegemonic and operational nature has evoked new flows and modalities of contestation and resistance. One critique of global economics by David Korten, is that the excessive majority of the profits of global economic growth have gone not to the poor but to individuals who already have more than they need, even far more.³¹³

Rather than creating competitive markets, capitalism in global economics creates an economic system based on monopolies and oligopolies that serve the few at the expense of the many. The capitalist accumulation of wealth creates economic, social and political inequality as it is concentrated and centralized in the hands of a rather small number of individuals and firms. The global economic system is increasingly dominated by large transnational corporations, with more political and economic power than the nation-states across their borders. These Transnational Corporations are protected and supported by a series of international, intergovernmental institutions that regulate international finance.³¹⁴ The market liberals supported Transnational Corporations to have become important global actors since they are believed to have provided employment and prosperity.³¹⁵

The International Finance Institutions include the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO) have influenced economics in developing countries. Besides, they have also examined economic policies and defined what types of policies would best to ensure economic growth. Though they claim to represent over 180 countries, the IFI is governed only by a small number of economically powerful countries who dictate the institutions' policies.³¹⁶ These financial institutions have shaped the economic, social, and political development and regulations of the developing countries. The countries

³¹³ David C. Korten, *The Post-Corporate World Life after Capitalism* (San Francisco: McGraw-Hill, 2000), p. 79.

³¹⁴ Richard L. Harris and Melinda J Seid, *Critical Perspectives on Globalization and Neoliberalism in the Developing Countries*, International Studies in Sociology and Social Anthropology 79 (Leiden: Brill, 2000), pp. 5-8.

³¹⁵ Peter M. Haas and John A. Hird, "Understanding Globalization," in *Controversies in Globalization: Contending Approaches to International Relations*, ed. Peter M. Haas, John A. Hird, and Beth McBratney (Washington, DC: CQ Press, 2010), p. iviii.

³¹⁶ Natasha M. Ezrow, Erica Frantz, and Andrea Kendall-Taylor, *Development and the State in the 21st Century: Tackling the Challenges Facing the Developing World* (London: Palgrave Macmillan, 2015), pp. 50-51.

have to adopt free-market policies and are encouraged to pursue neoliberal policies such as privatization, deregulation and scaling down the government, that affected the limited state capacity.

The corporations have extracted the resources taken over to other parts of the world, degraded the ecology and disrupted governments and legal systems through bribery. On the other side, governments in developing countries have reduced their expenditures on education, health and other social services to serve the debts of their country. This debt is mostly related to the IMF. Humans are suffering from these neo-liberal economic policies. It has placed large numbers of workers, peasants and indigenous people in a precarious situation. The increasing global integration and neoliberal deregulation of the economies of the developing countries are leading to the almost complete deforestation of many countries.

Already the impacts of neoliberal policies are clear: the welfare state has been sheared, state materials have been privatized, inflation has been reduced, profit rates are up, the competitiveness of corporations has increased, and key impediments to growth such as labor unions have been defeated. Nevertheless, the assurance of economic growth has not occurred, is even lower than before; on the contrary, many countries' economies have been shaken by financial crises. The rules which have been constructed are not fair to those in the poorest countries of the world.

Globalization itself is neither good nor bad, argued by Joseph Stiglitz. It has the potential to bring enormous benefits to the developing and developed world. The economics of many countries grow far more quickly as they are opening up to global trade. Many people are far better off, the standard of living is higher, access to knowledge and information has become more accessible. People are more than before receiving a quality education. However, globalization has not brought the promised economic benefits for all. Inequality is increasing and the poverty level is rising. In 1998, the Asian crisis threatened the entire world economy.³¹⁷

Therefore, several sources of discontent ought to be taken seriously: the effects of globalization and trade on job security, wage increases and product quality. One of

³¹⁷ Joseph E. Stiglitz, *Globalization and Its Discontents* (New York: W.W. Norton Incorporated, 2002), pp. 4-6.

the major consequences of globalization is the acceleration in foreign direct investment flows. The privatization and liberalization policies pursued by these emerging economies have created new investment opportunities.³¹⁸

The skeptics regard takeovers of domestic companies by foreign investors as not beneficial to foreign direct investment. The protection of the governments to secure their citizenship is needed, mostly in developed economies. In the book globalization has gone too far, globalization and its neoliberal economic system could not have advanced this far without the complementary forces, among others are the International Financial Institutions as mentioned above and the Transnational Corporations.³¹⁹ The following section will describe what other elements have contributed to the solid integration of the free market into the global economic system.

5.2. Competitive Free Market and its Principles

“There is one and only one social responsibility of business: to increase its profit,” argued Milton Friedman, the American economist and *Nobel Laureate* in the 1970s in his book *Capitalism and Freedom*. This sentence states that apart from economic maximization, business has no other responsibility. The free-market is known as the best way in serving public interest.³²⁰ To serve social interest is a burden for a businessman. The mainstream business willingly follows Friedman’s principle.

This principle plays a big role in shaping the mindset: business people do not need to associate themselves and their economic activities with ethical questions, since the standard by a good business is measured only by the achievable net profit, and nothing else. Hence, profit maximization seems to be the natural goal and constitutional principle of free enterprise.

Businesses operate in an economic system, which a society uses to provide the goods and services necessary to survive and prosper. The two basic economic tasks

³¹⁸ Jeffrey Atkinson et al., *Globalizing Social Justice* (London: Palgrave Macmillan UK, 2009), p. 3.

³¹⁹ Dani Rodrik, *Has Globalization Gone Too Far?* (Washington DC: Peterson Institute for International Economics, 1997), p. 85.

³²⁰ Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 2002), pp. 119-20.

are production and distribution, they have to determine what will be produced, how and by whom it is produced, and what and how much everyone will get.³²¹

One debate around the system has raged over whether economies should be based more on planning or on markets. Should we have more government interference, or should government stand back and trust the economy more to the working of the “market” and the decisions of private owners which is known as free markets with *laissez-faire* policies. *Laissez-faire* literally in French means let people do as they want or let us act free of state controls.³²²

Free trade and privatization, deregulation, and globalization resurges economic liberalism and free-market capitalism. Government spending is being reduced to increase the private sector's role in the economy and society.

This free market is praised best in stimulating economic growth. Capitalism performs a better job of promoting human progress and welfare than other systems.³²³ However, this system is not a neutral system where all parties will guarantee to benefit. The free market is commonly portrayed as completely devoid of ethics embracing the market entirely without considering its human costs. Profit will be prioritized over people. It is more likely creating economic injustice and leading to inequality, where poor people and the marginalized will not gain anything. Still, they become victims of exploitation and the people with more capital will monopolize the market for their personal gain.

There are certain moral detriments to the market system. The focus on material profit may lead to materialistic greed and personal selfishness, replacing stewardness and harmony. The competitive character is viewed in a progress-prone culture as a positive force promoting excellence and enriching society. The resistant culture dissuades competition as a form of aggression that threatens the stability and solidarity of the society, partly because it nurtures envy.³²⁴ Neoliberalism relies on discourses of ethical perfectibility to maintain its dominance focusing on the

³²¹ O. C Ferrell, John Fraedrich, and Linda Ferrell, *Business Ethics: Ethical Decision Making and Cases* (Mason, Ohio: South-Western Cengage Learning, 2011), p. 167.

³²² Natalie Goldstein, *Globalization and Free Trade* (New York: Infobase Publishing, 2010), p. 8.

³²³ Lawrence E. Harrison, *Who Prospers: How Cultural Values Shape Economic And Political Success* (New York: Basic Books, 1992), p. 10.

³²⁴ *Ibid*, p. 18.

profitable business of making capitalism moral. To this statement arises the question, what particular ethics does neoliberalism crucially depend upon structurally and subjectively for its furtherance and expansion?

David Harvey has written his analysis of neoliberalism, which he defines as a theory of political economic practices that human well-being can advance better by freeing freedoms and commercial skills within an institutional framework depicted by strong private property rights, free markets, and free trade.³²⁵

As an anthropologist, Lawrence E. Harrison agrees with this proposal. In his book *Underdevelopment is a State of Mind*, he chooses to look inward rather than outward to explain development in a society. He argues that natural resources, climate, government policies, and history influence the direction and pace of development progress. However, human creative capacity and the creative potential of society is the engine of development.³²⁶

Laissez-faire requires no central direction or organization, markets work independently. The modern market economy system is thus characterized by the compulsion of competition.

Adam Smith (1723-1790), well-known as the father of modern economics, had great faith in the invisible hand, the efficiency of economic activity motivated by self-interest and the advantages of competition, and opposed the government's interference in the market. Adam Smith argues when private individuals are left free to seek their own interests in free markets, they will inevitably boost their economic gain be led to further the public welfare. According to Smith, competitive markets are the ideal system to achieve a mutual advantage. In this *laissez-faire* doctrine, he convinced the natural harmony of individual wills as the strongest economic embodiment of individualism. Efficiency and freedom will be maximized, together with the securement of each participant to achieve his gain

³²⁵ David Harvey, *A Brief History of Neoliberalism* (New York: Oxford University Press, 2007), p. 2.

³²⁶ Lawrence E. Harrison, *Underdevelopment is a State of Mind: The Latin American Case* (Maryland, US: Rowman & Littlefield, 2000), pp. 1-3.

without injury to others and achieve a just distribution, a sharing of the social product in proportion to individual contributions.³²⁷

Adam Smith discusses:

By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention, nor is it always the worse for the society that it was no part of it. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.³²⁸

This ‘invisible hand’ according to Adam Smith is interpreted as market competition. He recognized how a market economy organizes the complicated forces of supply and demand. In producing and distributing goods and services, a diversity of private businesses must compete for the same buyers, motivated only by self-interest under the condition of competition. However, the invisible hand does not only guide the system of natural liberty in the market but also promotes to achieve harmony between humans.³²⁹ In the market, the need for individual identity on autonomy and self-control cannot be separated from the need for social integration and social identity through adherence to a distinguishable community.³³⁰

In competitive markets, producers and consumers are assumed to care only about themselves, not about each other. Self-interest is the only connection between a buyer and a seller in market exchange. In *The Wealth of Nations*, Adam Smith states:

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. To

³²⁷ See: Martin Büscher, *Marktwirtschaft und kontextuelle Ökonomie: wirtschaftsethische Grundlagen zur Weiterentwicklung der Ordnungspolitik* (Wiesbaden: Dt. Univ.-Verl, 2000), pp. 68-87. For a further comprehensive discussion about Adam Smith and economics ethics.

³²⁸ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 11. print (Indianapolis: Liberty Fund, 2009), p. 456.

³²⁹ Peter Ulrich, *Integrative Economic Ethics Foundations of a Civilized Market Economy* (Cambridge: Cambridge University Press, 2008), p. 154.

³³⁰ *Ibid*, p. 199.

widen the market and to narrow the competition, is always the interest of the dealers.³³¹

The first principle of the economy is that every agent is guided only by this self-interest.³³² This self-interest is understood as principle and also as an ideology of the free market. An ideology is a series of normative beliefs or preferences shared by the members of a social group, specifies the objectives and range of acceptable actions to be undertaken, who interrogates human nature or the purpose of social institutions.³³³

Adam Smith observed that:

by pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.³³⁴

In *The Wealth of Nations*, Adam Smith identified the remarkable efficiency characteristics of the market and explained how the self-interest of individuals working in a competitive market can generate social and economic benefits. Adam Smith realized that there is a harmony between public interest and private interest. Private interest can lead to a public gain when it is carried out in a well-functioning market mechanism. However, Adam Smith believed, the self-interest of market participants does not stand diametrically with collective ideas such as the common good. The market has its own mechanism to safeguard common interests. The individual as an economic subject neither intends to promote the public interest nor does he know how much he promotes. By pursuing his own interests, he often promotes social interests more effectively than he really intends to promote it. In this system, the state policy is to do nothing, except to let each individual pursue his self interest in natural liberty in order to be free to buy and sell everything he or she wishes. Once again, Adam Smith's analysis assumes that every human being is

³³¹ Smith, p. 267.

³³² Pierre Force, *Self-Interest before Adam Smith: A Genealogy of Economic Science* (New York: Cambridge University Press, 2003), p. 18.

³³³ Robert R. Mayer, *Social Science and Institutional Change* (USA: Transaction Publishers, 1982), p. 15.

³³⁴ Smith, *The Theory of Moral Sentiments*, p. 456.

motivated only by a natural and self-interested desire for profit, for his own gain and advantages. It is human nature to follow the rules of economic rationality: to give away as little as possible for as much as you can get in return.

This economic rationality or *homo oeconomicus in Latin* characterizes man as purely rational, in the sense of being a utility maximizer. This concept was first introduced systematically by Vilfredo Pareto at the end of the nineteenth century. In the so-called methodological individualism, the *homo oeconomicus* is the basic idea of neoclassical theory.³³⁵ Pareto, in 1960, focused on maximizing the utility level of each individual, given the feasible utility level of others from production and exchange saying:

Pure economics studies the homo economicus who is guided only by the desire to obtain the greatest utility with the minimum effort.³³⁶

In any *homo oeconomicus* model, self-interest is the exclusive driver of the action and dominate all other motives. A long debate has been taking place about whether the idea of man in *the Wealth of Nations* is different from the one in *the Theory of Moral Sentiment*, where Adam Smith presented his conception of moral philosophy.

Rationality in *homo oeconomicus* is reduced to the capacity to calculate which means are more efficient for achieving specific ends, with no concern for assessing the value of this end. “Instrumental rationality” or “economic rationality” does not permit consideration of why one should act but only how to be efficient in using the means available or maximize such efficiency for a given end. Human beings are viewed as individuals who are competitively seeking to acquire more, rather than ‘being’ in community with others. The goals are productivity, wealth, and freedom from restrictions.³³⁷

In short, the fathers of free market took economic ideals of human dignity and individual freedom as fundamental, as ‘the central values of civilization’. They

³³⁵ Alexander Brink, “Corporate Governance and Ethics: An Introduction,” in *Corporate Governance and Business Ethics*, ed. Alexander Brink (Dordrecht: Springer Netherlands, 2011), p. ix.

³³⁶ Michael McLure, *Pareto, Economics and Society: The Mechanical Analogy* (New York: Routledge, 2001), pp. 41-42.

³³⁷ Ulrich, *Integrative Economic Ethics Foundations of a Civilized Market Economy*, p.68.

define human dignity on a single side of individual freedom. The perceptions of dignity and individual freedom are powerful and captivating on their own.³³⁸

In this perspective, a market is a mechanism through which buyers and sellers interact to determine prices and exchange goods, services or money. A market can be small and temporary or quite large and permanent.³³⁹ Adam Smith recognized that the virtues of the market mechanism are fully realized only when checks and balances of perfect competition are present.³⁴⁰ What is meant by perfect competition? A competitive market is defined as a market in which numerous homogenous products are being sold in which no buyer or seller has the power to significantly influence the prices to which the products are exchanged. Perfect competition prevails when the production demand for each producer is perfectly elastic.³⁴¹

Seven defining features characterize perfectly a competitive market: (1) Existence of numerous buyers and sellers, none of which has a substantial market share. (2) Easily and freely enter or leave the market. (3) Each buyer and seller have perfect knowledge of business activity, recognition of the price, quantities and quality of all goods. (4) Similarity of the goods sold in the market that nobody cares from whom each purchase or sell. (5) The costs and benefits of the production are borne entirely by those who buy or sell the goods and not from any other external parties. (6) All buyers and sellers are utility maximizers: minimizing cost while maximizing profit. (7) No external parties, including the government, imposed regulations on price, quantity or quality controls.³⁴²

The roles of the state in a free market are:

1. Create and preserve an appropriate institutional framework for such practices.
2. Guarantee the quality and integrity of money.

³³⁸ David Harvey, *A Brief History of Neoliberalism* (New York: Oxford University Press, 2007), p. 5.

³³⁹ Paul A. Samuelson and William D. Nordhaus, *Economics*, 19th ed, (Boston: McGraw-Hill Irwin, 2010), p. 26.

³⁴⁰ Joan Robinson, *The Economics of Imperfect Competition* (New York: Springer, 1969), p. 18.

³⁴¹ *Ibid*, p.18.

³⁴² Manuel G. Velasquez, *Business Ethics: Concepts and Cases*, 7. ed. (Harlow: Pearson, 2014), p. 216.

3. Establish military structures, police, and legal functions needed to guarantee private property rights.
4. Guarantee, with force, if necessary, the proper functioning of the markets.
5. If markets do not exist in some areas such as land, water, education, health care, social security, or environmental pollution; they must be created, by state action, if necessary.³⁴³

Nevertheless, the country should not risk going beyond these tasks. State interventions in the markets must be maintained to a minimum, because, according to the theory, the state cannot possess sufficient information to the market signals or prices. The powerful interest groups inevitably distort interventions state, particularly in democracies, for their own benefit.

In contrast, imperfect competition is a market situation in which private companies can control the prices of commodities in an industry. Usually, when the products of an industry are only provided by one or relatively few companies, there will be imperfect competition.³⁴⁴

The rising of competition is the hallmark of globalization. *The survival of the fittest*, the natural selection from Darwin is trusted by many businesses as a reflection of competition among the business actors. As in the animal nature, only the strong will survive, the business which are able to produce effectively and efficiently within the scarce resources will be able to sustain.³⁴⁵ Given unlimited wants, an economy must make the best use of its limited resources. This leads us to the critical notion of efficiency. Efficiency denotes the most effective use of the resources of a company to meet the needs of people. In the free market, no one can escape this self-contained inherent logic of the competitive system. Who cannot or will not participate in this competitive market, or does not adapt his life to the conditions of capitalist success will be a loser or cannot rise up. Max Weber states this logic in his book *the Spirit of Capitalism*:

It forces the individual, in so far as he is involved in the system of market relationships, to conform to capitalistic rules of action, The manufacturer

³⁴³ Harvey, *A Brief History of Neoliberalism*, p. 2.

³⁴⁴ Dodd Harvey James and Carl William Hasek, *Economics: Principles and Applications* (Manila: Goodwill Trading Co., Inc., 1952), p. 117.

³⁴⁵ Ferrell, Fraedrich, and Ferrell, *Business Ethics*, pp. 183-84.

who in the long run acts counter to these norms, will just as inevitably be eliminated from the economic scene as the worker who cannot or will not adapt himself to them will be thrown into the streets without a job.³⁴⁶

Competitiveness means the ability to overcome the greatest number of competitors who offer goods, services or labor to potential buyers obtaining a comparative advantage of the cost benefit. One example is the same service for a lowest price or additional advantages of the same price.

Max Weber observed that:

Thus, the capitalism of today, which has come to dominate economic life, educates and selects the economic subjects which it needs through a process of economic survival of the fittest.³⁴⁷

Competition is desirable because it fosters effectiveness and efficiency that produces human progress. However, after two centuries of experience and thought, people recognize the limited scope of this doctrine. We admit that there are ‘market failures,’ which means that market does not always lead to the most effective and efficient outcome. One set of market failures concerns imperfect competition, and the second failure of the ‘invisible hand’ occurs when there are externalities outside the market such as ecological degradation. Another external reservation stands when the income distribution is politically or ethically unacceptable. In each case, market failure leads to inefficient production or consumption. When any of these elements appear, Adam Smith’s invisible-hand doctrine collapses and government may want to step in to play a useful role in remedial the disorder.

As mentioned earlier, imperfect competition creates a serious divergence from an efficient market. Few industries are monopolized in the market. Instead of numerous sellers, there is only one dominant seller who owns a substantial share and has control over a product. In this monopoly market, other companies will have difficulty entering the market. They are hindered by ‘barriers to entry’, such as patents or copyright laws that prevent other companies from making patented

³⁴⁶ Max Weber and Talcott Parsons, *The Protestant Ethic and the Spirit of Capitalism* (London: Routledge, 2010), pp. 19-20.

³⁴⁷ *Ibid.*, p. 20.

products, or high entry costs that make it too expensive or too risky for new sellers to start a business in the industry.

Unlike monopoly, the oligopoly markets are dominated by a few large significant firms that influence prices and restrict their output. Companies that control the oligopoly market can only be two or up to fifty, depending on the industry that can work as a single giant firm. Horizontal mergers, the unification of two or more companies that previously competed in the same line of activity are the most common causes of the oligopolistic market structure. The most concentrated oligopoly industry in general is, the greater amounts of profits they can extract from customers.³⁴⁸

Similar to a monopoly market, other sellers are not able to easily enter the market. Obstacles may be due to prohibitive costs to start an activity in that industry. They can be the result of long-term contracts that have already influenced all buyers to companies in the sector, or may be due to lasting loyalty created by brand name advertising. As a result, there is no respect for basic economic freedoms, only the decrease in social utility. To ensure that large firms do not harm consumers, regulatory and legislation agencies should be established to limit and control the activities of large companies.³⁴⁹

In a modern market society, individualism and the free-market ideas are often dominant, even though deviations exist among countries. Although Adam Smith is often heralded as a champion of individualization and unrestrained market, he also recognized moral foundation must be in place to protect against individualism. Adam Smith has no doubt that the rules of justice are indispensable. Justice “is the main pillar supporting the entire construction.”³⁵⁰

Adam Smith added that the ultimate requirement of social order is a real law system that reflects the current concept of legal norms and is governed by the legal system:

As the violation of justice is what men will never submit to from one another, the public magistrate is under the necessity of employing the power of the commonwealth to enforce the practice of this virtue.

³⁴⁸ Velasquez, *Business Ethics*, p. 225.

³⁴⁹ Velasquez, p. 232.

³⁵⁰ Adam Smith, *The Theory of Moral Sentiments*, The Glasgow Edition of the Works and Correspondence of Adam Smith (Indianapolis: Liberty classics, 1982), p. 86.

Without this precaution, civil society would become a scene of bloodshed and disorder, every man revenging himself at his own hand whenever he fancied, he was injured.³⁵¹

Most economic models are constructed on the self-interest hypothesis which assumes that all people are exclusively pursuing and motivated by their material self-interest and do not care about social goals and altruism. But we have to consider the fact that not everybody is similar. We can see that fairness motives affect the behavior of many people, but we also cannot assume that all people are motivated by fairness considerations. Even though we can see many examples in life that humans are more cooperative than is assumed in the standard self-interest model. Well-known examples are that many people vote, pay their taxes honestly, participate in unions and protest movements, or work hard in teams.³⁵²

In recent times, experimental economists have gathered overwhelming indications that many people are strongly motivated by fairness and reciprocity that cannot be ignored in social interactions. Albeit many economists are so reluctant to give up the self-interest hypothesis, many significant economists as Gary Becker, Kenneth Arrow, Amartya Sen or Paul Samuelson pointed out that people often care for other's well-being. This perspective has important economic consequences.

However, so far, these opinions have not had much impact on the conventional economy. Possibly, the reluctance of the mainstream economists is since the models based on the self-interest hypothesis make very good predictions for competitive markets with standardized goods, or there is not yet evidence that a co-operative and fair economic model generates greater profits. How to bring these terminologies, self-interest, competition and justice in an economic system together?

In the discussion about business and economics, many questions need thorough reflections. Is business good or bad? Is the government efficient or inefficient? How strong is state authority in interfering with the market process? What will occur when in the market ethical principles are integrated? The arguments and dialogue

³⁵¹ Smith, p. 340.

³⁵² Ernst Fehr, "A Theory of Fairness, Competition and Cooperation" (Rochester, NY: Social Science Research Network, 1998), p. 1.

about responsibility and awareness to remedy the inequalities and power relations produced by the free market have to occur.

According to the German economist Martin Büscher, the balances have to be developed on how to define the role of business in society, the balance between business interests in highly competitive markets and the serving role of companies, to show its responsibility to social, ecological, cultural and life-world interests and the common good. On the self-regulatory level, as well shaping the markets politically without destroying their productive energy.³⁵³

Neoliberalism individualizes ethics. Its ideology and ethics are ultimately a celebration and reification of the free market. As a person, we are responsible for dealing with and resolving normative failings. The market is increasingly forced both personally and collectively to save capitalism, to make neoliberalism more humane. The capitalism's and humanity's survival and prosperity are mutually exclusive propositions.³⁵⁴

With the rooted ethics of neoliberalism, there is a pessimist to continue to find way to fix neoliberalism ethically. People argues that, it is a moment beyond the rescue of the free market morally, instead, is now fundamental to descend the radically urgent business to solve the problem of capitalism for the sake of both today and the future.³⁵⁵ However, we cannot give up on these pessimistic ideas. Two levels of approaching the *homo oeconomicus* are at the individual level, the personal self-limitation, and the institutional level, the political limitation of competition. Institutional politics have the ethical duty to set up legally binding “rules of the game” and conditions limiting competition, applying equally to all economic agents.³⁵⁶

From an ethical point of view, free markets ignore the demands of caring kindness replacing greedy egoism because individuals operate completely independently of each other and take no account of the human relationships among them. The

³⁵³ Martin Büscher and Frank Simon, “State, Business, Stakeholders: Ethical Perspectives on Balancing Business and Public Interests,” *Journal of Business Ethics* 66, no. 1 (June 2006): 1–2, <https://doi.org/10.1007/s10551-006-9051-3>, pp. 1-2.

³⁵⁴ Harvey, *A Brief History of Neoliberalism*, pp. 5-6.

³⁵⁵ Peter Bloom, *The Ethics of Neoliberalism: The Business of Making Capitalism Moral* (New York: Routledge, 2017), pp. 173-74.

³⁵⁶ Ulrich, *Integrative Economic Ethics Foundations of a Civilized Market Economy*, p. 145.

dominant attention to efficiency may neglect the relationship with another well-being and the ecology. The next section will present another perspective to analyze an economy, embedded with ethics and theology/diakonia.

5.3. From Free Market towards Embedded Economy

The initial task of an embedded economy is connecting the market with relationship and thus a vital purpose to church communities.³⁵⁷ The church should be broad-minded, always open to dialogue with other disciplines. Concerning the free market, the position of the church is not to promote nor resist, neither pro nor anti market. The church is the representative of life, is life-affirming, upholding the economy of life. The church needs to articulate its normative vision in the public sphere and assure the effective participation of the marginalized and the poor in the process of globalization.

To connect the economy back to this relationship, there must be an awareness that the market economy is not everything. The wholeness of human beings needs a balance of mental, material, ethical and spiritual fulfillment. In Matthew 4:4, Jesus said: "One does not live by bread alone, but by every word that comes from the mouth of God."³⁵⁸ Beside material resources, humans need other non-material reserves as well.

The economy must find its place within a higher order of things which is not ruled by supply and demand, free prices and competition. The German economic concept of *Wirtschaft* derives from *wirtschaften* or the creation of value.³⁵⁹ This word wants to remind us that the actual quality of the economy is the creation of value for human ends. The economy has to be placed in the service of 'values beyond the economy', in 'the service of human dignity', this is 'the true purpose of the economy'.

We need to criticize the anthropology of economics and plead for embedded ethics to economics as the first task in this section.

³⁵⁷ Martin Büscher describes Embedded Economics as a Contextual Economy (die kontextuelle Ökonomie). Büscher, *Marktwirtschaft und kontextuelle Ökonomie*, pp. 132-163.

³⁵⁸ Matthew 4:4 NRSV

³⁵⁹ Ulrich, p. 186.

Human beings are tremendously complex, thus can be studied from many points of view. A human being is not merely a *homo oeconomicus*. From the normative point of view, the goal of economic life should not be drawn from this fact alone. Instead of the *homo oeconomicus* as a pure individual, there is a proposal of the *homo oeconomicus* as a person-in-community.³⁶⁰ In Aristotle's eyes, the 'magnificent man was the gift-giving man,' not the man who accumulates.³⁶¹

The theory that human nature follows the rule of 'economic rationality,' that a human being 'intends only his own gain' is not always right. Human beings also regularly show a concern for the good of others and constrain their self-interest for the sake of the rights of others. When humans often behave as 'rational economic men,' this is because the wide adoption of competitive market relationships obliges human beings to relate to each other as rational economic men. Humans have to adapt to business language, such as money and profit. This system and the institution that engenders selfishness, materialism, and competitiveness, then makes us think the profit motive is natural.

The *homo oeconomicus*, a rational economic man who is driven by self-interest to pursue profit maximization is always related to Adam Smith's concept of laissez-faire. This concept has been widely misinterpreted. It puts too much pressure on the invisible hand, which appears only once in two of Adam Smith's books. It mainly attracted the attention of economists.³⁶² On the opposite, the word benevolence as the virtue of man appears 87 times in his book, yet gets lesser recognition. In the dialogue with economics, Christians need to expand their views of Adam Smith.

Every human is naturally recommended to take care of themselves and is given the principle of self-love, in order to strive not only to maintain his existence but also to maintain all parts of his nature in the most perfect state.³⁶³ Nevertheless, people are born with a natural tendency to care about other members of human beings, such

³⁶⁰ Herman E. Daly, John B. Cobb, and Clifford W. Cobb, *For the Common Good: Redirecting the Economy toward Community, the Environment, and a Sustainable Future*, 2. ed., (Boston: Beacon Press, 1999), pp. 7-8.

³⁶¹ Lester C. Thurow, *The Future of Capitalism: How Today's Economic Forces Shape Tomorrow's World* (London: Penguin Books, 1997), p. 15.

³⁶² Andrew S Skinner, "Adam Smith," in *The Invisible Hand*, ed. John Eatwell, Peter Newman, and Murray (London: Palgrave Macmillan UK, 1989), p. 8.

³⁶³ Paul Oslington, *Political Economy as Natural Theology: Smith, Malthus and Their Followers* (London: Routledge, 2017), p. 109.

as their family. In a society built on a competitive market, there is a huge moral defect in which natural kindness to virtue is replaced by self-interest. Societies are morally flawed because they promote morally bad characters.³⁶⁴

Adam Smith is known for two of his books, the *Wealth of Nations* and the *Moral Sentiment*. To understand him, we need to read both writings side by side. In the *Wealth of Nations*, his primary focus was on economic growth, and he deals more with the invisible hand, the market forces, not distribution. However, the purpose of the growth was to improve society's welfare. As long as all individuals had equal basic rights and the mutual rights were respected.³⁶⁵ The second book deals with social equity and justice, the importance of the government's regulatory role in distributing wealth among the people.³⁶⁶

Adam Smith thinks of the connection between individual interests and the public interest within a harmonious scheme.³⁶⁷ On normative grounds, self-interest is defended for its contribution to the common good. When a producer is supplying goods on the market to raise profits, as a result, the price of the goods declined and enable people to buy the products at the lowest price possible. Even though he only intends to serve his own interest, the unintended consequence is that the common good is served.

It does not mean that for Adam Smith the human being is always governed by self-interest, in fact, humans are also able to rise above the demands of self-interest to compassion for others. They are far more than utility-maximizing creatures. This ability is innate in humans.³⁶⁸ In the first lines of *The Theory of Moral Sentiments*, Adam Smith describes:

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it.³⁶⁹

³⁶⁴ Ferrell, Fraedrich, and Ferrell, *Business Ethics*, p. 181.

³⁶⁵ Daly, Cobb, and Cobb, *For the Common Good*, p. 143.

³⁶⁶ Paul Oslington, *Adam Smith as Theologian* (London: Routledge, 2014), p. 133.

³⁶⁷ Force, *Self-Interest before Adam Smith*, p. 262.

³⁶⁸ Domènec Melé and César González Cantón, *Human Foundations of Management: Understanding the Homo Humanus* (New York: Palgrave Macmillan, 2014), p. 19.

³⁶⁹ Smith, *The Theory of Moral Sentiments*, p. 9.

The centrality of self-interest in Smith's economic model left room for sympathy and fellow feeling. Sympathy is the central sentiment regulating the relationship with other people. Smith defines sympathy as fellow feeling. This sympathy contributes to the harmony of society because sympathy is a reciprocal relationship. Immanuel Kant described sympathy as a duty and is implanted in human beings since they are born as follows:

Sympathetic (*sympathia moralis*) is a duty. Sympathetic joy and sadness are sensible feelings of pleasure or displeasure at another's state of joy or pain (shared feeling, sympathetic feeling). Nature has already implanted in human beings, receptivity to these feelings, but to use this as a means to promoting active and rational benevolence is still a particular, though only a conditional, duty.³⁷⁰

A person has the ability to put himself in the perspective of others through his own imagination and to imagine what others think and feel of him. Smith discussed the spectator, claiming that he or she can form opinions about the activities of others by imagining their behavior or feelings in similar situations. It is this ability to act imaginatively and compassionately that enables the viewer to judge whether the observed behavior is appropriate or inappropriate, as well as 'proper or improper.'³⁷¹ We assume ourselves the spectators of our own behaviors and endeavor to imagine what effect that produces upon us. Other people function as a mirror of our moral self-criticism, we judge ourselves in two persons, the spectator and the agent, who examines by placing himself in the position of other people and whose conduct is to be judged.³⁷²

Adam Smith believes that humans would not need the law in an ideal world because we could live virtuously through our impartial spectators, but humans are not perfectly virtuous. Humans must regulate their behavior by law: "It is for this reason we discover those general rules of justice with which we should regulate our actions." We cannot always be guided by the impartial spectator. We need

³⁷⁰ Immanuel Kant, Mary J. Gregor, and Roger J. Sullivan, *The Metaphysics of Morals* (Cambridge: Cambridge Univ. Press, 1996), p. 307.

³⁷¹ Eatwell, Milgate, and Newman, *The Invisible Hand*, p. 7.

³⁷² Johan J. Graafland, *Economics, Ethics and the Market: Introduction and Applications* (London: Routledge, 2009), p. 90.

something more. We need the law. Regulation is required because we are not perfectly virtuous.³⁷³

The Bible is clear of this paradox, the apostle Paul states in his letter to the Romans in verses 7:18-19: “For I know that nothing good dwells within me, that is, in my flesh. I can will what is right, but I cannot do it. For I do not do the good I want, but the evil I do not want is what I do.”³⁷⁴

In this matter, I argue, rather than against self-interest, it is wiser to nurture the spectators of the business actors and to strengthen the sympathy among the people.

Smith had great faith in the invisible hand and opposed the interference of the government in the market. The system insists that all barriers as regulations, custom and restrictions, any barriers to the free movement of goods and services, labor and capital be removed. They are regarded as limitations to the development of an efficient market.³⁷⁵ In addition, the modern market economy supported by globalization also reduces the power of the (national) government, because its jurisdiction is limited to its own territory. Regulation by international governments is, however, difficult because of the divergence in cultural and economic interests of different countries.

How about the argument that Adam Smith’s advocacy of laissez-faire and his opposition to the role of government must be seen in the historical context of his time. Smith’s skepticism about the role of government in solving society’s problems was grounded in his lack of faith in the institution of government, particularly in the British government of his time.³⁷⁶

The involvements of the “orderly, vigilant and parsimonious” governments of Venice and Amsterdam in the administrative on of public banks was “extremely proper”. However, the government of England which was “slothful” and acted with “thoughtless extravagance” could not safely be trusted with a similar responsibility.³⁷⁷

³⁷³ Oslington, *Adam Smith as Theologian*, p. 51.

³⁷⁴ Romans 7:18-19 NRSV.

³⁷⁵ Oslington, p. 136.

³⁷⁶ Sandy Baum, “Poverty, Inequality, and the Role of Government: What Would Adam Smith Say?” *Eastern Economic Journal* 18, no. 2 (1992): 143–56, pp. 151-152.

³⁷⁷ Smith, *The Theory of Moral Sentiments*, p. 187.

One of the main primary concerns of Adam Smith regarding the role of the government was that the state would always represent the interests of some groups compared to others. The state is actually established aimed at the defense of the rich against the poor, or the people who have some properties against those who have nothing. He also expressed the opposition to the structure of mercantilism that maintains the laboring classes poor.³⁷⁸ Even though Smith himself also admitted, that competition in the market might not be perfect; the government was required as an “imperfect remedy” of these less-than-ideal conditions.³⁷⁹

Max Weber in his book *Economy and Society*, looking at established market societies, argued that the operation of large capitalist companies depends on whether they can offer the kind of order that only modern bureaucratic states can provide. As Max Weber stated: capitalism and bureaucracy have found each other and belong closely together.³⁸⁰ In a market, where the collaboration of government and corporation is not in place and the limitation of government regulation is rising, there is a call for greater responsibilities of private agents. Max Weber also showed how market institutions impact social virtues and the intrinsic willingness of private agents to contribute to the common good.³⁸¹

In this century we are now living, experiences have given us proof that both the invisible hand and the visible hand have a role in regulating the market forces. In a free market guided by the invisible hand of the market mechanism to promote the common good and resists the idea of a visible or guiding hand, ironically individuals are relentlessly manipulated by the visible hand of corporate elites and financial institutions. The question is not should there be a market? But where are the boundaries of the market as the organizational structure of economic life?

In a competitive market, the accepted role of the government is only to enhance competition in order to help markets function effectively. If a specific market does not exhibit any of the market failure problems, there is no reason why the

³⁷⁸ Baum, pp. 151-152.

³⁷⁹ Baum, pp. 152.

³⁸⁰Michael G. Heller, *Capitalism, Institutions and Economic Development* (London: Routledge, 2011), p. 23.

³⁸¹ Graafland, *Economics, Ethics and the Market*, p. 39.

government is involved in that part of the economy.³⁸² Nonetheless in reality, market imperfections call for government intervention. Society as a whole, needs to be corrected by the visible hand of the state, or the invisible hand of the market is always guided by a visible hand of one kind or another.³⁸³ The economy should be embedded in the political relations.

Besides being embedded in the political relations, the economy needs to attach to social and environmental relations as well. In his book, the *Great Transformation*, Karl Polanyi distinguished between “embedded” and “disembedded” economic orders. According to Polanyi's reading of history, economic orders have always reflected the principles and values of the societies in which they were situated. Previous economic orders had always been "embedded" in socio-political relationships. Nevertheless, alongside the rise of capitalism in the mid-nineteenth century, the economy was successfully disembedded from society and dispersed on local, national, and global markets. The liberal movement of goods, capital, and services between nations became dominant as a result of globalization. Because of the separation of the economy from the rest of the world, everything turned to commodity including natural environment, money and human labor as. These circumstances have assured the destruction of both the society and ecology. Karl Polanyi writes in his book against it:

In other words, according to the empirical definition of a commodity they are not commodities. Labor is only another name for a human activity, land is only another name for nature, which is not produced by man; actual money is not produced at all, but comes into being through the mechanism of banking or state finance. None of them is produced for sale. Land, labor, and money are fictitious commodities because they were not originally produced to be sold in the market.³⁸⁴

According to Polanyi, the term "embeddedness" expresses the view that the economy is not autonomous, but subordinate to politics, religion, and social

³⁸² Rebecca M. Blank, William MacGurn, and William McGurn, *Is the Market Moral? A Dialogue on Religion, Economics, and Justice* (Washington, DC: Brookings Inst. Press, 2004), p.18.

³⁸³ Oslington, *Adam Smith as Theologian*, p. 140.

³⁸⁴ Karl Polanyi, Joseph E. Stiglitz, and Fred L. Block, *The Great Transformation: The Political and Economic Origins of Our Time*, 2nd. ed. (Boston, Mass: Beacon Press, 2010), pp. 72-75,77.

relations. Instead of embedding the economy in social relations, but integrating social relations into the economic system.

To promote the development, the autonomy should join together with embeddedness. Self-interest will be joined with social and ecological interests. This concept calls embedded autonomy. Mutual reinforcement is at the core of the success of a developmental country.³⁸⁵

In the context of the international market, John G. Ruggie proposed the concept of 'embedded liberalism,' which is a process of legitimizing the international market through reconciliation with social values and common system practices. This principle implies the need to fill gaps in the operations of companies that manufacture, buy, and sell globally. Firms whose rights have in effect in the recent era of globalization outstripped the global frameworks that should regulate them. The need to balance domestically and internationally the benefits of internationalized financial markets with their risks, share the rewards and costs of the disruptions created by internationalized markets across national societies.³⁸⁶

This form of political-economic organization, now generally known as 'embedded liberalism' to emphasize the way in which market processes and business activities were surrounded by a network of social and political restrictions and a regulatory setting that sometimes restrained, but in other cases led the way in economic and industrial strategy.³⁸⁷

According to Polanyi, disembedding economy from social and environmental, and turning the human beings and the natural environment into pure commodities cannot be successful because this concept assures the destruction of both society and the ecology.

The contemporary economy presents a long list of developments that show the deterioration of the environment, including global warming, toxic chemical waste and losses in biological diversity. Economic analysis only takes into account the state of the environment after economic agents and add environmental protection

³⁸⁵ Polanyi, Stiglitz, and Block, p. 228.

³⁸⁶ Rawi Abdelal and Ruggie John G, "The Principles of Embedded Liberalism: Social Legitimacy and Global Capitalism," in *New Perspectives on Regulation*, ed. David A. Moss and John Cisternino (Cambridge: The Tobin Project, 2009), pp. 151-54.

³⁸⁷ Harvey, *A Brief History of Neoliberalism*, p. 11.

to their list of economic wants or if negative externalities cause a direct, verifiable economic depreciation of scarce production means.

How does theology and diakonia take part in the process of connecting the economy back to the relationship?

Arthur Rich argues that the relationality of the fundamental relationships of I-Self, I-Thou and I/We-It can give important implications for the groundwork of business and economic ethics. The first relationship is ‘I-Self’ defines the individual aspect where the I is something given, and the self is still becoming. Immanuel Kant describes:

A human being has a duty to himself to cultivate (cultural) his natural powers (powers of spirit, mind, and body), as means to all sorts of possible ends. – He owes it to himself (as a rational being) not to leave idle and, as it were, rusting away the natural predispositions and capacities that his reason can someday use.³⁸⁸

In this sense, a self will always have the possibility to be transformed. Immanuel Kant argues that it is a duty of a person to nurture the positive things in oneself.

The second basic relationship is ‘I-Thou.’ Man becomes an I through a You, says Martin Buber.³⁸⁹ This relationship requires a dialogical process to truly relate with one another. In this dialogical structure, I am never a person only for myself, but always in a relationship with the other person.³⁹⁰ According to Immanuel Kant, humanity is an end in itself and this insight is the foundation for a universal categorical imperative.³⁹¹ A human being is not a thing and not something that can be used merely as a means. Human beings cannot be instrumentalized. His worth is not a price but is dignity. Furthermore, Immanuel Kant discusses:

For a human being can never be treated merely as a means to the purposes of another or be put among the objects of rights to things: his innate personality protects him from this.

But a human being regarded as a person, that is, as the subject of a morally practical reason, is exalted above any price; for as a person

³⁸⁸ Kant, Gregor, and Sullivan, *The Metaphysics of Morals*, p.295.

³⁸⁹ Martin Buber and Walter Kaufmann, *I and thou* (Edinburgh: T. & T. Clark, 1971), p. 57.

³⁹⁰ Arthur Rich, *Business and Economic Ethics: The Ethics of Economic Systems* (Belgium: Peeters Publishers, 2006), p. 41.

³⁹¹ William Schweiker, *Theological Ethics and Global Dynamics: In the Time of Many Worlds* (United Kingdom: John Wiley & Sons, 2008), p. 199.

(*homo noumenon*) he is not to be valued merely as a means to the ends of others or even to his own ends, but as an end in himself, that is, he possesses a dignity (an absolute inner worth) by which he exacts respect for himself from all other rational beings in the world.³⁹²

Hegel's perspective on community or *Gemeinschaft* is that community or society is not simply necessary for humanity's development and progress, it is necessary from the point of view of human life itself. In the absence of cooperation, humans cannot reproduce and survive. For Hegel, the life of the individual depends upon the life of a people (*das Leben eines Volkes*), which furnishes 'the universal sustaining medium' necessary to human life. It is thus only the power of the whole people (*die Macht des ganzen Volkes*) that confers upon the individual sufficient power to exist.³⁹³

It is interesting also to find this similarity rooted in a cultural relationship, for examples: *Ubuntu* in South Africa, *Harmony* in the Javanese culture or *Sapangambe manoktok hitei*, in the Simalungun culture in Indonesia.

The third basic relationship is 'I/We-It,' which can be called the ecological aspect, where the human being is always related to the natural environment. There is an element of absolute dependency in this relation. Thus, this 'It' is also an object which humans can alter according to their will. Self is the individual inner world, 'Thou' is the dialogical environment of the human person and 'It' is the ecological outer world, the physical life basis of its existence.³⁹⁴ In the story of creation in Genesis, these elements are displayed gradually.

This third relationship is the most neglected in the interrelation and also in the ethical dialogue in the opinion of the German philosopher Hans Jonas. He argues that all traditional ethics is anthropocentric, an ethic belongs to the direct dealing of man with man.

Hans Jonas gives examples of ethics:

love thy neighbor as thyself, do unto others as you would wish them to do unto you, strive for excellence by developing and actualizing the best

³⁹² Kant, Gregor, and Sullivan, *The Metaphysics of Morals*, pp. 179, 284.

³⁹³ Mike Hill and Warren Montag, *The Other Adam Smith* (California: Stanford University Press, 2014), pp. 238-239.

³⁹⁴ Rich, *Business and Economic Ethics*, p. 42.

potentialities of your being qua man; subordinate your individual good to the common good, never treat your fellow man as a means only but always also as an end in himself, and so on.³⁹⁵

The agent and others of the action are shared a common present, those who are alive today and in some relationship with me who have a complaint of my behavior. According to Jonas, the ethical universe is not just contemporary, but also the future. The new dimensions of responsibility, the consequences must be seen to the future, even to the unborn, the future of humanity, as well as caring not only the human good, but the extra-human.³⁹⁶

Hans Jonas argues no previous ethics outside of religion, has prepared us for such stewardship role.³⁹⁷ He calls it solidarity of interest with the organic world. His fundamental point is that “ought” to be a continuation of “is.”

The idea of separation is part of the western conception. When we read the book of Genesis, humans are created in God's image, different from other creatures and then separated from God because of his sins. A struggle to formulate an ethic of relationship to the non-human world follows. From this standpoint, there is a deficiency in western mainstream ethics which can be fulfilled by indigenous ethics or values. We are now seeking to recapture ancient wisdom that understood human embeddedness. An example is the mother-children relationship between forest and people from the Papua woman perspective as mentioned in my empirical observation.

Moreover, these values also affect the economy which needs to be embedded in and be part of our earth's system. The embeddedness of economy in society and ecology has been neglected by mainstream economists and affected humanity and ecology's present and future well-being.

Some concepts can be derived from ecological ethics. Firstly, is the concept of membership. People are members of the community, not the owners. Second is

³⁹⁵ Hans Jonas, *The Imperative of Responsibility: In Search of an Ethics for the Technological Age* (Chicago: University of Chicago Press, 2007), pp. 4-5.

³⁹⁶ Jonas, p. 137.

³⁹⁷ Jonas, p. 8.

householding: The earth and the living systems should not only be regarded as natural resources. They are worthy of respect and care and should be shared fairly.³⁹⁸

Re-embedding the economy in human relations, in ethics and in the environment is crucial. This is an opposite notion of Anthony Giddens's 'disembedding.'³⁹⁹ Modernity has pulled people, objects, landscapes, and other social relations out of their roots and local context of interactions. The people, their tradition, life, culture, symbols are embedded in the economic system. When we understand that ecology is a part of us, our policies and actions will be changed, because we depend on each other and tied with one another. In an Oikos, Nomos is embedded in the social and ecological well-being.

The free human has to be steward, not a master but a member. We need to reconsider justice and distribution. Marginal people are at the forefront of forest destruction, water scarcity and overexploited natural resources.

Rarely have scholars examined the importance of religious actors, and their discourse, in economic policy. The interpretation of Jesus' words saying "Render therefore unto Caesar the things which are Caesar's; and unto God the things that are God's," thus making clear the majority's belief that church and state should stick to their core competencies, without integrating with each other.

The market is a social and cultural construction based on values. The current market structure often puts individualism and efficiency before community and unity.⁴⁰⁰ The current free market system places great emphasis on the principles of individualism, effectiveness, and growth. Successful free market institutions uphold these values, and global courts and government agencies promote these values internationally.

Modern capitalism is partly based on an emphasis on individualism. Company decisions and guidelines are often regarded as the private domain of technical

³⁹⁸ Peter G. Brown and Peter Timmerman, "Proposed Ethical Foundations of Ecological Economics," in *Ecological Economics for the Anthropocene: An Emerging Paradigm*, ed. Peter G. Brown and Peter Timmerman (New York: Columbia Univ. Press, 2015), p. 17.

³⁹⁹ Anthony Giddens, *The Consequences of Modernity* (Cambridge: Polity Press, 1999), p. 21.

⁴⁰⁰ Amy Reynolds, *Free Trade and Faithful Globalization: Saving the Market* (New York: Cambridge University press, 2015), p.143.

experts and market themselves as purely technical structures.⁴⁰¹ We forget that market is a social construction. They are inevitably composed of people and the products of certain historical processes and specific political actions. If we define markets as social construction, we must admit that they are full of moral concepts and assumptions about the distribution of goods.⁴⁰² Even though some people would frame markets simply as the technical structure of commodity distribution, historians have long recognized the connection between market structure and other aspects of social life.

Companies are not only regarded as profit-making entities, but also as social ethical agents performing certain functions in society, so they are responsible to the society for their actions, and the people they hire must comply with laws and regulations. It is defined as acceptable business behavior. It is necessary to realize that companies are not people who can think about ethical issues. It is important that regulations and laws provide formal structural constraints and guidelines on ethical issues. It should establish, communicate and monitor the ethical values and legal requirements that reflect the characteristics of its history, culture, industry and operating environment, and formulate the company's organizational ethics plan.⁴⁰³

In applying ethics to business, we have to bear in mind that some aspects need considerations. Firstly, business must earn a profit in order to survive. Secondly, the business must balance its profits against the needs of society. To maintain this balance requires trade-offs. Usually, society will develop legal and implicit rules to guide business to earn profits without harming individuals or society.

Ethics define the basic principles, criteria, or standards by which we determine what we ought to do, what is morally right or wrong, and what our moral rights are.⁴⁰⁴ Business ethics deals with the question of which the companies can effectively enforce moral norms and ideals under the conditions of the modern economy and society.⁴⁰⁵

⁴⁰¹ Reynolds, pp. 11-12.

⁴⁰² Reynolds, p. 10.

⁴⁰³ Ferrell, Fraedrich, and Ferrell, *Business Ethics*, pp. 217-19.

⁴⁰⁴ William K. Frankena, *Ethics*, 2nd. ed. (Englewood Cliffs, New Jersey: Prentice-Hall, 1973), p. 79.

⁴⁰⁵ Ulrich, *Integrative Economic Ethics Foundations of a Civilized Market Economy*, p. 98.

Business ethics comprises very complex components. Ecological problems are also interwoven with business and economic ethics, as well as political ethics and household ethics. Norms and values play an important social role. In terms of normative management, strategic and operative decision-making processes should be firmly based upon ethical considerations. Values shape the decisions and actions of a firm. Not only that, the business decision-making process are many times also heavy influencing a society's norms and values.⁴⁰⁶

Normative ethics assess how people should act. It always refers to what should be, not to what is. It does not explain why a person acts one way and not another, but rather why one should act one way and not another.⁴⁰⁷ Ethics also play an important role in the public sector. We have been told that some politicians and some senior officials have resigned and received negative publicity due to unethical behavior. The norms that regulate market relations are impersonal; each party in a market transaction regards its relationship with the other party as a means to satisfy the end, and the definition of the end is independent of the other party's relationship and purpose. The two parties have no pre-contractual obligation to provide each other with the goods they exchanged. Therefore, the impersonalization of market relations defines an area that is not affected by personal relations and obligations. The market allows participants to freely pursue personal interests without considering the interests of others. Therefore, every expansion of the market represents an expansion in the field of egoism, in which each party defines and satisfies its interests independently of the other.⁴⁰⁸

The mission of the church is to add personal value to the market. As a religious actor, the church plays an important role in shaping the sacred concept of the market and must be seen as a participant with the potential to redesign market life. In a highly competitive market, in addition to talking about self-interest and utility maximization, the church can enter and talk about other values and needs, and

⁴⁰⁶ Rüegg-Stürm, *The New St. Gallen Management Model*, pp. 22-23.

⁴⁰⁷ Rich, *Business and Economic Ethics*, p. 19.

⁴⁰⁸ Elizabeth Anderson, *Value in Ethics and Economics* (Cambridge: Harvard Univ. Press, 1995), p. 145.

convey the social and ecological effects brought about by the market. Advocating justice and human dignity is one of the proposed values.

Jürgen Moltmann defends human rights as an important aspect of the church. His argument is that human rights offer churches the opportunity to improve their public role and rediscover their prophetic voice in the political sphere. In the Hebrew Scriptures, God liberates the people from slavery; he forms a covenantal relationship with them, and through this relationship God affirms humanity to realize man's original destiny.⁴⁰⁹ Through the advocacy for human rights the church becomes the church for the world.⁴¹⁰

In a market encouraging self-interest, we are also called to be other interested. It means being concerned with those on the other side of our economic transactions. It can be with workers or indigenous people who are endangered, or when products damage God's creation.

Although current economics characterize freedom by individualistic nature, church can contribute to public dialogue about the meaning of living in a community, especially in a free market system. It means that promoting economic freedom is connected with increasing economic opportunities available to people to participate in the market and within their communities.⁴¹¹

In Matthew 18:20, Jesus is clear about the nature of a community: "For where two or three are gathered in my name, I am there among them."⁴¹² Moreover, the great commandment of Jesus in Matthew 22:39 stated that in the absence of other individuals, a person cannot express love: "You shall love your neighbor as yourself."⁴¹³ Concern for others is as important as self-concern. The Christian faith is concerned about individual and individual well-being, but also calls people to live in community with each other.

In the 21st century, theology has no cultural power it once enjoyed, which in the 19th century has nourished the political economy. Economics and theology have

⁴⁰⁹ Ian S. Markham, *A Theology of Engagement* (Malden, Massachusetts: Blackwell Publ, 2003), pp. 65-66.

⁴¹⁰ Richard Bauckham, *Theology of Jürgen Moltmann* (UK: A&C Black, 1995), p. 118.

⁴¹¹ Reynolds, *Free Trade and Faithful Globalization*, p. 146.

⁴¹² Matthew 18:20 NRSV.

⁴¹³ Matthew 22:39 NRSV.

now parted ways. Attempting to reduce economics to theology or vice versa is not helpful, and there is nothing to fear in either.⁴¹⁴ Trying to maintain a different field between the church and the economy is not a faithful answer. How does the church play a role in economic affairs and become economic partners? In order to conduct dialogue effectively, the church must first establish and regain the confidence to talk about socio-economic issues before political and economic power, and strengthen its capabilities, including leadership and management.

Second, the church must be prepared and willing to learn from non-Christian sources. Sometimes engagement requires the assimilation of insight from a non-Christian source; at other times we must resist the idea, and sometimes we find our theology being shaped as a result of hearing the argument between two or more non-Christian traditions.⁴¹⁵

The church needs to invite interdisciplinary dialogue, and should not be allergic to the term economics or business. Dialogue with other disciplines means that we as a church know what position we should take, what vision we have as a church in public life and what further engagement we will participate in.

In the dialogue, the church should develop and use the language which is understandable in the secular world and find an integrative framework together, for example a common good or human dignity. Before building a dialogue with the external agencies, the church can start internally by helping their members to think about how economic reality and Christian faith might interact. Too often churches ignore economic questions, considering them outside the church's preaching and teaching role. Integrating Christian faith and economic life is crucial for anyone who wants to practice Christianity in modern society. Neither Jesus nor the biblical prophets shy away from thinking about how their faith relates to their economic world, neither should we.

Jubilee regulation in Leviticus 25 is an example of the scriptures that support the markets, but put explicit limits within the scope of the market to safeguard other interests. There is a balance between economy and community. Both care for the

⁴¹⁴ Oslington, *Political Economy as Natural Theology*, pp. 128-129.

⁴¹⁵ Markham, *A Theology of Engagement*, pp. 1-2.

land and social inclusion and are to be valued alongside individual freedom. Sabbath and Jubilee combine to restrict the free movement of capital and the commoditization of land and labour. Interestingly, they do it without the need for government redistribution or welfare. The laws provided that farmland must not be sold “in perpetuity,” or rather, “not beyond reclaim.” The theological premise is the understanding that the land ultimately belonged to Yahweh, and that his people were only “strangers and guests” (Leviticus 25:23). Therefore, land, at least arable land, is not a commodity that can be bought and sold.⁴¹⁶

Thirdly, we have to remember that Church is a place of sharing good values. This can embrace good changes in society and inspire people to action. The values are foundational to its mission and vision.⁴¹⁷ We must speak of alternative values to limit the negative market externalities and social responsibility of the social problem as well as sharing the value to care for the poor and the disadvantaged. When market values such as efficiency, productivity, or incentives become core secular values, the church needs to speak of the common good concept and recognize the importance of community to the individual. Society needs to respond more effectively to the human pain caused by market outcomes. Shared values are essential in any society, and religion is a force that should help shape those values. We must find a balance between self-interest with the concerns for other people and communities where we participate, build other people’s needs, and shape them into words and deeds. More attention to the social ethics can provide an alternative to market models of self-interest. It can offer people a language and a framework for understanding the role of the individual within the broader community and the role of government within society. Church and diakonia can help encourage cooperative behaviour and interpersonal relationship.

A theological reorientation of economics is required, and an eschatological direction for society towards a new world. Genesis begins with a picture of the relation between God and humanity which has been broken by the Fall, and the book of revelation ends with a vision of the church prepared as a bride for her

⁴¹⁶ Richard H Hiers, *Justice and Compassion in Biblical Law* (London: T & T Clark, 2010), p. 44.

⁴¹⁷ Aubrey Malphurs, *Advanced Strategic Planning: A New Model for Church and Ministry Leaders* (Grand Rapids, Michigan: Baker Books, 2005), pp. 95-105.

bridegroom and the eschatological vision of the new creation (Revelation 21). Theology needs to relate to both visions.

Fourthly, the role of advocacy, empowerment and mediacy is important. The church's role should be to speak out against the forces that oppress and limit human potential and that stunt the expression of human love. At the same time, church also empowers the people. The Church should act as a mediator of negative effects caused by the market economy that creates human misery and ecology depletion. One recommendation is through Corporate Social Responsibility. CSR defines how companies manage the economic, social and environmental effects of processes and the supply chain by involving all stakeholders from employees, communities to government entities. The current focus of CSR has moved from charity and philanthropy to social justice and partnering with multi-stakeholders.⁴¹⁸ Relationality and responsibility are deeply intertwined: we live with one another and for one another. Living out an ethic of responsibility is grounded in and empowered by Jesus Christ, the risen and the crucified. Responsibility emerges as the total and realistic response of Christians to God and to the neighbors. Church through diakonia can also help the community by providing resources for those who cannot achieve economic self-sufficiency.

Lastly, to reach a broader collaboration and integration, besides engaging in a broader ecumenical activity, my dissertation proposal is to reach into global spheres, in a global diakonia engagement, to strengthen churches' prophetic voices in the political-economical arena.

5.4. Interim Result

Disembeddedness of economics with other relationships makes people disconnected from the products they sell, which is the feature of the modern market. People sell the product, buy, trade, produce without thinking with whom they transact or the consequences. Individuals in a free market act entirely independently of each other and do not consider human relationships that exist between them.

⁴¹⁸ Kathleen Wilburn and Ralph Wilburn, "Demonstrating a Commitment to Corporate Social Responsibility Not Simply Shared Value," *Business and Professional Ethics Journal* 33, no. 1 (2014): 1–15, <https://doi.org/10.5840/bpej20144216>, p. 3.

Overriding attention to efficiency can promote personality traits that maximize individual economic well-being but neglect traits associated with building close relationships with others. The virtues of loyalty, kindness and caring tend to diminish while the vices of greed, selfishness, and calculation are fostered. The erosion of personal relationships in the marketplace has led to complacency with power imbalances and inequality in economic relationships.

Embedding the market back to the community is a vital task for us, including diakonia and the church. We are created in relationship with God, other people, and creation. In contrast, economic globalization tends to weaken these family and community ties, while individualism, productions that use others instead of participation in the life of others, competition instead of cooperation are reinforced. How do we recognize the importance of the market as a vehicle to corresponding benefits it brings to society become a question nowadays. We should ensure the participation of the marginalized and the poor more effectively in globalization. To care for those on the other side of the economic transactions, worrying when the products harm other people and the creation.

Embedded Economics takes multi rationality into account. All actors and disciplines have their language and anthropological understanding, yet it is not impossible to participate through dialogue. The church's responsibility for economic justice is an integral part of the church. The church cannot act alone to succeed in its mission to fight for justice and restore human dignity. Instead, the church should build a network with other civil society groups and institutions to hold the government accountable to the people and corporations. In the next chapter, global diakonia will be discussed as a platform to unite all the actors and draw a framework strategy to transform the palm oil industry, especially in Indonesia.

Chapter 6

Global Diakonia: Theological Embeddedness

The expansion of palm oil in Indonesia is indivisible from global demand, ensuring that people and companies worldwide are increasingly connected. The diversity of actors involved in the production chain is not limited by local space and time. Each actor is involved in each system with different rationality and language. The church and diakonia actors are inseparable from the involvement in this palm oil complex industry. In the previous chapter, the economic plan and rationality of the Indonesian state were described, followed by the role of transnational corporations and their economic rationality in dialogue with embedded ethics. In this chapter, the emphasis on global diakonia will be explored, enriched by biblical reflection and theological aspects and the management adopted by global diakonia in the context of palm oil expansion in Indonesia.

6.1. Theological Consideration of Global Diakonia

In this globalization process by which we become aware of the world as a single place, in any respect, we have to come to experience the world as a whole in its totality. Therefore, we ought to understand how changes in a far-off locale, or actions taken by other people in another part of the world, have consequences. We are connected to events, conditions distant from us in time and space. We have to be enabled to set this new paradigm to make sense of the world where we live. It informs us of the understanding of cause and effect in this global world.

The separation of time and space unravels what Anthony Giddens calls the disembedding social systems: The withdraw of social relations from the context of local interaction and their reconstruction in an infinite time and space.⁴¹⁹

In short, the world is getting smaller where social relationships are not limited by physical geography. This sense has to reach diakonia as well. Our diakonia in the global context, dealing with global issues and actors, working with global civil society towards global justice. This global diakonia at the same time has to make

⁴¹⁹ Giddens, *The Consequences of Modernity*, p. 21.

impacts to the local problem. Diakonia cannot be limited to the activities of specialized agencies and professional agents. It must be rooted in the life and mission of the church and connected with people from below. There must be a movement of diakonia at all levels. The global challenges have significant consequences on the interpretation of the diakonia intervention to the society. According to the context, the actions of diakonia are passed on from generation to generation. Due to the complexity of the global environment, theological and biblical orientation can lead the church to be aware of providing the services.

1. The global world is the responsibility of the church

The earth as God's creation is the common area of responsibility of Christianity around the world. The biblical tradition offers orientation for greater openness to global processes while at the same time concentrating on one's areas of responsibility. The first sentence of the Bible in Genesis 1:1 already referred to the fundamental message of responsibility in the Bible, not only for the earth but also for the cosmological aspect. The biblical texts clearly express that every regional and personal problem has been placed in a global and cosmological context from the beginning until today. The cosmic vision of salvation is contained in Colossians 1:15-20 and Philippians 2:6-11, for example. The Christian vision of salvation is omnipresent and cosmic in scope. The book of John very clearly describes salvation for the entire universe. As declared in John 3:16: "For God so loved the world that he gave his only Son, so that everyone who believes in him may not perish but may have eternal life."⁴²⁰

2. Global is the nature of the church

The nature of the church is global. Diakonia is the characteristic of the church. Christianity has been conceived in a global context from the earliest demonstrable beginnings.⁴²¹

Beginning in the early days of Christianity, with the early New Testament churches, the missionary efforts of St. Paul to contemporary missions in Asia, Africa, and

⁴²⁰ John (Gospel) 3:16 NRSV

⁴²¹ David Bosch, *Transforming Mission: Paradigm Shifts in Theology of Mission* (New York: Orbis Books, 1991), p. 372.

Latin America, the church was institutionally, historically, and theologically a globalizing community. In Jesus' ministry, the global dimension is seen not so much in his actual work, mostly limited to Galilee, but rather in the call and commission, he charged the disciples. In the post-resurrection command of Jesus in Matthew 28:18-20: And Jesus came and said to them, "All authority in heaven and on earth has been given to me. Go therefore and make disciples of all nations, baptizing them in the name of the Father and of the Son and of the Holy Spirit, and teaching them to obey everything that I have commanded you. And remember, I am with you always, to the end of the age."⁴²² In addition, the global dimension of the mission is also formulated when Jesus says, "All authority in heaven and on earth has been given to me." The universal dimension of this statement informs the word of commission that follows: as Jesus has been given all authority in all realms of God's creation, so Jesus' authority empowers his disciples to do the mission to all nations. (Matthew 28:20). The famous phrase 'all nations' refers to all people, including both the Jews and the Gentile nations. The global perspective of the missionary commitment of the disciples and thus of the community of Jesus' followers is expressed in geographical terms, most specifically in Acts of the Apostles 1:8: "But you will receive power when the Holy Spirit has come upon you; and you will be my witnesses in Jerusalem, in all Judea and Samaria, and to the ends of the earth."⁴²³ The term "ends of the earth" can be understood literally in the context of Greco-Roman geography, referring to the most remote areas of the world known to be inhabited at the time, namely Iberia (Spain) in the west, Ethiopia (Sudan) in the South, India in the East and Scythia (Ukraine, Belarus, Russia) in the North. The substances of globalization are recorded in the name of the church.⁴²⁴

The globalization substances have been captured in the church designation. One example is through the global relationship and networks and the global movement of personnel and resources, cultures, identities, and values. However, the modern

⁴²² Matthew 28:18-20 NRSV

⁴²³ Acts of the Apostles 1:8 NRSV

⁴²⁴ Eckhard Schnabel, "Global Strategies and Local Methods of Missionary Work in the Early Church - Jesus, Peter and Paul," in *The Church Going Global: Mission and Globalisation*, ed. Tormod Engelsen, Erling Lundebj, and Dagfinn Solheim (Oxford, United Kingdom: Regnum Books International, 2011), p. 23.

context of globalization impacted the church and invoked the church's participation and social responsibility in shaping the structures and cultures attached to it.

However, as global Christianity becomes increasingly made up of peoples from Asia, Africa, and Latin America and these newly emerging indigenous expressions become normative, historical theology today must relate to Christian history, not just church history, rewritten to reflect a more global perspective on the church.⁴²⁵

3. Paul's Collection to Jerusalem is an act of interchurch help

The collection to the poor, which Paul organized in all the Greek congregations for the church in Jerusalem (2 Corinthians 8:1-15), is known as primitive Christianity's first great interchurch (ecumenical) aid program, which can be one lesson of example to global diakonia. This action was a challenge to Apostle Paul and was proof of a well-organized ecumenical action of charity to testify to the church's unity across barriers.⁴²⁶

Paul mentions this collection in his letter to the Galatians (Galatians 2:10) as well as in the first letter to the Corinthians (1 Corinthians 16:1-4) and at the end in the letter to the Romans (Romans 15:25-31). The remarks on the collection can be found in the second letter to the Corinthians: 2 Cor. 8-9. Interestingly, Paul carried out the collection from the poor church of Macedonians, with the participation of a relatively wealthy Corinthian church to address the poor holy congregation of Jerusalem (Romans 15:16).

The collection aims to create a balance between lack and abundance, whereby material and spiritual things stand side by side. Paul characterizes the collection of the fund as diakonia, as an expression of the communion between the Gentile Christian communities and the Jerusalem community.⁴²⁷ This Pauline collection presents itself as an interchurch diakonia, ecumenical solidarity that includes

⁴²⁵ Timothy C. Tennent, *Theology in the Context of World Christianity: How the Global Church is Influencing the Way We Think about and Discuss Theology* (Michigan: Zondervan Academic, 2009), p. 295.

⁴²⁶ Hans Christoph von Hase, "Diakonia: Today's Task," *Scottish Journal of Theology* 20, no. 1 (March 1967): 57–74, <https://doi.org/10.1017/S0036930600023425>, p. 70.

⁴²⁷ Gerhard K. Schäfer and Wolfgang Maaser, "2. Korintherbrief 8,1-15: Kollekte für die Gemeinde in Jerusalem," in *Geschichte der Diakonie in Quellen: von den biblischen Ursprüngen bis zum 18. Jahrhundert*, ed. Gerhard K. Schäfer and Wolfgang Maaser (Göttingen: Vandenhoeck & Ruprecht, 2020), p. 65.

material and spiritual aspects. Ecumenism does not only mean interchurch relationships in the sense of inter-denominational and international relationships between the churches. Ecumenical means, in the sense of the Greek term "oikoumene," all the entire inhabited world and all humanity. Therefore, the nature of the church is not just ecumenical, a body whose members are scattered throughout the world, but it is global. This collection expresses what the church is and what manifested in its life, plans, and daily projects.⁴²⁸

Andreas Lindemann describes that this collection to Jerusalem should be given the special attention because Paul deals with the organizational questions and problems connected with the collection with remarkable intensity. After all, it was the greatest relief operation of early Christianity, and Paul was its organizer and responsible for it. It shows that in the practices, diakonia required considerable planning energy for the preparation and implementation.⁴²⁹

6.2. Movements of Contemporary Diakonia

6.2.1. Modern Diakonia: Diakonia Roots in Germany in the Nineteenth Century

Interesting to notice two experiences from two famous Germans in their respective fields. First is Karl Marx (1818-1883). After his trip to Great Britain, in response to the poverty accompanying the industrial revolution, he wrote *Das Kapital*. Around the same time, after his journey to America and Great Britain, the response of Reverend Theodor Fliedner to the poverty of the period differed from that of Marx. Fliedner responded by creating the movement for deaconesses, a movement of care for the poor, children, and the sick and prisoners.⁴³⁰

Theodor Fliedner (1800-1864) opened a home for the homeless with his wife Friederike Fliedner in 1833. He had formed a prison welfare society by 1826 and a

⁴²⁸ Kjell Nordstokke, *Liberating Diakonia* (Trondheim: Tapir Akademisk Forlag, 2011), p. 22.

⁴²⁹ Andreas Lindemann, "Die Jerusalem-Kollekte des Paulus als „diakonisches Unternehmen“" in *Wort Und Dienst, Jahrbuch Der Kirchlichen Hochschule Bethel*, 28.Band (Bethel, 2005), pp. 99-100.

⁴³⁰ Bart J. Koet, Edwina Murphy, and Esko Ryökäs, "Assessing the Role and Function of an Assistant. The Deacon in the First Two Centuries of Christianity," in *Deacons and Diakonia in Early Christianity: The First Two Centuries*, ed. Bart J. Koet, Edwina Murphy, and Esko Ryökäs (Tübingen: Mohr Siebeck, 2018), pp. 9-11.

primary school and hospital. Theodor Fliedner, through his actual work, initiated a huge impact. Three years later, in 1836, he established the *Diakonissenmutterhaus* or Deaconess Motherhouse, a diakonia institution to train nurses in Kaiserswerth. He is well-known as the pioneer of the deaconess or female diakonia. It was of great importance for the development of deaconess work in Europe.⁴³¹

Fliedner's central theme is that the new life of Christian communities has to be worked out in diakonia, based on Jesus Christ whose life had been a service of love. Love of neighbor is the actuating of the love of God.⁴³²

The history of the diakonia movement in Germany is associated as well with pastor Johann Hinrich Wichern (1808-1881), closely linked to the *Kirchentag* in Wittenberg in 1849 and Wichern's programmatic speech on the establishment of the Inner Mission and the developments of diakonia that took place in Europe during the 19th and 20th centuries. Johann Hinrich Wichern shared his vision of a reconciled society permeated by the spirit of Christianity.⁴³³

In 1848, the "Innere Mission" Evangelical Committee was founded, and 50 years later, the Catholic 'Caritas' was established. During the Weimar period from 1919 to 1933, the churches were deeply involved in providing social and welfare services for the poor and the needy.⁴³⁴ Since the Reformation, all Protestant countries have regarding caring for the dependent poor as the responsibility of the local or general government. If not theoretically, the right of the poor to get help in emergencies has been recognized among the conditions essential to the origin and progress of the rise of the German Inner Mission.⁴³⁵

⁴³¹ Gerhard K. Schäfer and Herrmann, "Geschichtliche Entwicklungen der Diakonie," in *Diakonisches Kompendium*, ed. Günter Ruddat and Gerhard K. Schäfer (Göttingen: Vandenhoeck & Ruprecht, 2005), p. 57.

⁴³² C. Tatton, "Some Studies of New Testament *Diakonia*," *Scottish Journal of Theology* 25, no. 4 (November 1972): 423–34, <https://doi.org/10.1017/S0036930600028556>, pp. 429-33.

⁴³³ Gerhard K. Schäfer and Wolfgang Maaser, "Einleitung," in *Geschichte der Diakonie in Quellen: von den biblischen Ursprüngen bis zum 18. Jahrhundert*, ed. Gerhard K. Schäfer and Wolfgang Maaser (Göttingen: Vandenhoeck & Ruprecht, 2020), p. 5.

⁴³⁴ Wolfgang Maaser, "EU-Anti-Discrimination Policies and the Protestant Identity of Diaconia in Germany," in *Diaconia against Poverty and Exclusion in Europe: Challenges – Contexts – Perspectives*, ed. Johannes Eurich and Ingolf Hübner (Leipzig: Evang. Verl.-Anst., 2013), p. 165.

⁴³⁵ C. R. Henderson, "Rise of the German Inner Mission," *American Journal of Sociology* 1, no. 5 (March 1896): 583–95, <https://doi.org/10.1086/210555>, p. 593.

Johann Hinrich Wichern's works began when the new industrialization presented Christianity with new challenges that could not be tackled by the church structure and the state at that time. Moved by discovering the homeless boys in Hamburg, he dedicated himself to establishing the Rauhes Haus in 1833. There he trained the brothers (*Bruderschaft des Rauhen Hauses*) as deacons with their role to care for the poor and the needy. Wichern's central theme is the struggle of humanity, and he provided service of pedagogic, caritative, and political activity. The Rauhes Haus became the cradle of the most famous rescue facility and the birthplace of the Innere Mission. He called for a systematic approach to combating spiritual and material poverty.⁴³⁶ Similar to the formation of tradition like the Fliedners for the so-called female diakonia or deaconess, Wichern trained the male diakonia or deacon.

In his memorandum to the German Nation, Wichern declares that Inner Mission is all practices raised from the faith on the love of Christ to renew Christianity inwardly and outwardly. Diakonia and welfare task have equal areas of responsibility (*Volksmission und Wohlfahrtspflege sind gleichberechtigte Aufgabenfelder*).⁴³⁷ From this perspective, Wichern differentiated between three forms of diaconal action: diakonia independent of official structures like Innere Mission, the church-based diakonia, and the civil diakonia. The civil meant the public care and service by the state or local government. Diakonia, according to Wichern, required reflection on these four concepts: on God, on being human, on the context of need, and how to assist. His proposals regarding a church-based diakonia were not realized. Instead, Innere Mission remained independent in the life of the church.⁴³⁸ The diakonia movement became a leading force in developed professional health and services in Europe in the 19th century.

In 1975, the Innere Mission merged with the so called Hilfswerk to form Diakonisches Werk der EKD. Sixteen years later in March 1991, the corresponding member organization of the East German Evangelical Church joined Diakonisches

⁴³⁶ Erich Beyreuther, *Geschichte der Diakonie und Inneren Mission in der Neuzeit* (Berlin: Christl. Zeitschriftenverl, 1983), p. 93.

⁴³⁷ Fahlbusch, Erwin Lochman, and Jan Milic Lochman, *Evangelisches Kirchenlexikon: Internationale Theologische Enzyklopädie. L - R: Band 2 G-K* (Göttingen: Vandenhoeck & Ruprecht, 1992), p. 682.

⁴³⁸ Kjell Nordstokke, "The Study of Diakonia as an Academic Discipline," in *Diakonia as Christian Social Practice: An Introduction*, ed. Stephanie Dietrich and Knud Jørgensen (Oxford: Regnum Books International, 2014), p. 50.

Werk and in 2012, the Diakonisches Werk der EKD merged with the Evangelischer Entwicklungsdienst to form the Evangelisches Werk für Diakonie und Entwicklung (Protestant Agency for Diakonie and Development).⁴³⁹

6.2.2. Brief History of Diakonia in Indonesia

Diakonia is always related to the context, as what we can learn from the inner mission⁴⁴⁰, a movement that has successfully heightened the awareness of the love to the neighbor in Europe, particularly in Germany during the time of industrialization. The word inner reflects that mission is within a single country's boundaries. Generally, a "mission" is presumed to be overseas, "*außere Mission*" is another word to describe the missionaries' mission to far-off places to Asia and Africa. One of the overseas missions is called the Rhenish Mission, a society member of the German foreign missions.⁴⁴¹ The year 1861 counts as the beginning of the Batak mission carried by the Rhenish Mission in North Sumatera, followed by the establishment of the Batak Church (HKBP) in 1881, with Nommensen as the first Ephorus.⁴⁴² The Simalungun Evangelical Church (GKPS) can also be traced back to the work of the Rhenish Mission in Batak Region in the 19th century.⁴⁴³

After the second world war, in 1960, with the cooperation of the evangelical church in Irian Jaya, and Nederlandse Hervormde Kerk, one last pioneer mission was launched in Irian Jaya, today is known as Papua.⁴⁴⁴

In the time of the missionary, diaconal work in Indonesia is categorized as one of the characters of the church: Koinonia, Diakonia, and Martyria. Diakonia became a strategy to intensify evangelization. It is interesting that during those periods, in Europe, especially in Germany, the churches also developed their concept and praxis of diakonia. Understandably, the features of diakonia did not have many

⁴³⁹ Diakonie Deutschland, "Diakonie - At a Glance," Infoportal - Diakonie Deutschland, accessed July 29, 2021, <https://www.diakonie.de/english>.

⁴⁴⁰ Fahlbusch, Lochman, and Lochman, *Evangelisches Kirchenlexikon*, pp. 682-685.

⁴⁴¹ John David Roth, *Hand-Book of Lutheranism* (New York: The Young Lutheran Company, 1892), p. 371.

⁴⁴² Fahlbusch, Lochman, and Lochman, *Evangelisches Kirchenlexikon*, p. 684.

⁴⁴³ World Council of Churches, "Simalungun Protestant Christian Church," World Council of Churches, accessed July 29, 2021, <https://www.oikoumene.org/member-churches/simalungun-protestant-christian-church>.

⁴⁴⁴ Wolfgang Apelt, *Kurze Geschichte der Vereinten Evangelischen Mission: = Short history of the United Evangelical Mission, Mission und Gegenwart* (Köln: Köppe, 2008), p. 70.

differences with diakonia in Germany at that time, caring for the poor and the sick, educating the people, loving the neighbors, a caritative diakonia following the life of Jesus.

Before the Rhenish Mission, so-called Christianity in Indonesia has arrived in the seventeenth century with the advent of the Nestorian Church or Persian Church.⁴⁴⁵ However, there is no sufficient data on this church and its diaconal work. From the time of the coming of the missionary, the caring of the poor was trusted to the churches. Orphan houses and leprosy houses were established. The years 1800-1942 are known as the period of Catholic and Protestant Missions during the Dutch colonization and the growth of the diaconal or Caritas work of the Catholic and the Protestant churches, mainly in the areas of education and health. The government invited the participation of the churches for schools and provided a subsidy to the schools.

Of great importance is the fact that the church, under the leadership of the Batak Karo Protestant Church (GBKP), moved away from the Pietistic theology of earlier times and emphasized a faith that fostered self-help and responsibility. Diakonia transformed the people to become agents to bring transformation to society. The GBKP church developed and was led by business lay people together with theologians to strengthen the church's role in a public space.⁴⁴⁶

After some decades, the diaconal ministry of the churches in Indonesia has developed from the charity to a reformative and transformative diakonia. The last development is prophetic diakonia, where the churches build cooperations with other organizations to help to overcome many social problems of laborers, migrants, and people with disabilities. In 1988, a network or forum of cooperation was established. It consisted of 40 churches and NGOs called the Network of Christian Institutions in Indonesia or *Jaringan Kerja Lembaga Pelayanan Kristen Indonesia* (JK-LPKI) and aims to support the churches in their diaconal ministry.⁴⁴⁷

⁴⁴⁵ Adolf Heuken SJ, "Christianity in Pre-Colonial Indonesia," in *a History of Christianity in Indonesia*, ed. Jan Sihar Aritonang and Karel A Steenbrink (Leiden Boston: Brill, 2008), pp. 3-5.

⁴⁴⁶ Karel Steenbrink, "The Sharp Contrasts of Sumatra," in *a History of Christianity in Indonesia*, ed. Jan Sihar Aritonang and Karel A Steenbrink (Leiden: Brill, 2008), pp. 583-84.

⁴⁴⁷ See: JKLPK, "JKLPK Indonesia-Tentang Kami," n.d., <http://jklpk-indonesia.org>.

The Communion of Churches in Indonesia (Persekutuan Gereja-Gereja di Indonesia), a member of the World Council of Churches, is a national ecumenical body in Indonesia with 88 member churches, founded in 1950.⁴⁴⁸ There is one commission responsible for handling the tasks of witness and service, which is understood as the evangelical role of the ecumenical movement. One concept followed by PGI members is unity in diversity which is the ideology of the Indonesian state and translated into the integration of worship (leiturgy), witness (marturia), and service (diakonia). Regarding the issue of palm oil, as one theme of discussion within the PGI, some actions being performed by PGI are campaigns and panel discussion around the issue of palm oil regulation in Indonesia, and publishing statement letters around the issue of land grabbing, deforestation, and criminalization of farmers.⁴⁴⁹

6.3. Contemporary Ecumenical Diakonia in Global Economics

Ecumenical Diakonia corresponds to how diakonia is understood within the ecumenical movement. It is the churches' aid to people in need crossing the frontiers and barriers worldwide.⁴⁵⁰ Ecumene is precisely the total earthly reality for which the diakonia is intended. To the entire church and the whole world. With the term total, we detect the meaning of outreach, the dynamic search for all, that man may share to the glory of God. In the ecumenical movement, diakonia has been one of the main pillars, and is translate as the language of the churches when participating in development projects.

After the World Council of Churches (WCC)⁴⁵¹ was established in 1948, it soon adopted diakonia as one of its primary tasks. WCC defines diakonia as responsible

⁴⁴⁸ WCC, "Communion of Churches in Indonesia | World Council of Churches," World Council of Churches, accessed July 29, 2021, <https://www.oikoumene.org/organization/communion-of-churches-in-indonesia>.

⁴⁴⁹ Markus, "PGI Bersama Komunitas Lintas Agama dan Organisasi Masyarakat Sipil Bahas RUU Perkelapasawitan," PGI, accessed July 29, 2021, <https://pgi.or.id/?s=kelapa+sawit>.

⁴⁵⁰ Christoph von Hase, "Diakonia", p. 72.

⁴⁵¹ WCC, "What Is the World Council of Churches?" World Council of Churches, accessed August 9, 2021, <https://www.oikoumene.org/about-the-wcc>.

The World Council of Churches is one of the most prominent faith-based organisations at the world social forum, a large ecumenical movement representing 560 million christians, the majority residing in the Global South. Established in 1948, WCC had 147 member churches and at the end of 2013, WCC represents more than 340 churches or denominations in over hundred countries. With their focus on issues of social justice, they seriously address both rational and spiritual sides of resisting the global economy.

service to the gospel through the actions and words Christians take in response to people's needs.⁴⁵²

In the ecumenical perspective, there has been a shift in the use of the concept of diakonia. The first ecumenical movement started with the caritative ministry assisting refugees and prisoners of war. The service led to the inter-church aid forms and included development work in Africa and Asia since the year 1960. Challenged by the suffering of millions of people and refugees after World War II, as early as 1945, a Department of Reconstruction and Inter-Church Aid was established. It was before the WCC held its first General Assembly in Amsterdam in 1949. This Inter-Church Aid concept was have sounded practically oriented and the Innere Mission was affiliated as part of the WCC inter-church aid network.⁴⁵³

During the consultation of the Division of Inter-church Aid and Service to Refugees (DICASR) at Les Rasses, Switzerland, in 1956, Visser 't Hooft presented the three dimensions of the church: kerygma, koinonia, and diakonia, and since then these three aspects, have been used in ecumenical reflection on the nature and being of the church. The term diakonia is used for universal reflection on the nature and nature of the church. Since its establishment, the World Council of Christians has always regarded diakonia as an integral part of the universal vision and worship, fellowship, and testimony to the world. Since its establishment, the World Council of Christians has always regarded diakonia as an integral part of the universal vision and worship, fellowship, and witness to the world.⁴⁵⁴

The WCC consultation in Larnaca, Cyprus, in 1986 took the lead in changing the language of diakonia from its classical usage in Europe as charity and humble service towards the prophetic role of diakonia.⁴⁵⁵ Prophetic diakonia is an essential task of the church in response to the needs and challenges of the community in

⁴⁵² Teresa Joan White, "Diakonia," World Council of Churches, January 1, 2002, accessed August 9, 2021, <https://www.oikoumene.org/resources/documents/diakonia>.

⁴⁵³ Kjell Nordstokke, "Diakonia and Diaconate in the World Council of Churches," *International Journal for the Study of the Christian Church* 13, no. 4 (November 1, 2013): 286–99, <https://doi.org/10.1080/1474225X.2013.867653>, pp. 286-287.

⁴⁵⁴ Esther Hookway and Christopher Francis, *From Inter-Church Aid to Jubilee: A Brief History of Ecumenical Diakonia in the World Council of Churches* (Geneva: World Council of Churches, 2022), p. 278.

⁴⁵⁵ Nordstokke, "Diakonia and Diaconate in the World Council of Churches", p. 182.

which Christians and churches live. The need for a thorough analysis of the fundamental causes and structures concerning global challenges and poverty requires the church's commitment in critical solidarity with marginalized people. We believe that diakonia in its various forms is inextricably linked to the struggle for justice and peace.⁴⁵⁶ In the Larnaca consultation, diakonia was defined as an effectual expression of Christian testimony in response to the needs and challenges of Christians and the communities in which the church lives.⁴⁵⁷ Besides the introduction of prophetic diakonia, the movement towards a global diakonia is another critical finding in this consultation, expanded to a global concern, given a space to theological and social reflection from Southern voices and diverse perspectives.⁴⁵⁸

Isabel Apawo Phiri emphasizes that ecumenical diakonia is a global diakonia for all people and the whole inhabited earth. Diakonia is global because it calls for the whole ecumenical community to join in diaconal action worldwide as part of one body, serve with and to all, and form alliances with whoever seeks justice, peace, and integrity of creation or JPIC.⁴⁵⁹

The theme of the Canberra Assembly (1991): 'Come Holy Spirit: Renew the Whole Creation' echoing the emerging concern with justice, peace, and integrity of creation, cannot be confined within the institutional framework of the churches but becomes a sharing and healing action of the holy spirit through the community of God's people in and for the world.⁴⁶⁰

When WCC marked the 50th anniversary of its diaconal service in 1994, the term jubilee, a biblical idea outlined in Leviticus 25, was chosen as the theme, as a vision of a fairer world, where injustice is put right, and poverty is alleviated, inspired the

⁴⁵⁶ Nordstokke, *Liberating Diakonia*, p. 19.

⁴⁵⁷ Klaus Poser, *Diakonia 2000: Called to Be Neighbours: Official Report, WCC World Consultation, Inter-Church Aid, Refugee and World Service, Larnaca, 1986* (Geneva: WCC Publications, 1987).

⁴⁵⁸ Hookway and Francis, *From Inter-Church Aid to Jubilee: A Brief History of Ecumenical Diakonia in the World Council of Churches*, 8-9.

⁴⁵⁹ Isabel Apawo Phiri, "The Imperative of Diakonia for the Church and Theological Education," *The Ecumenical Review* 71, no. 4 (October 2019): 482–91, <https://doi.org/10.1111/erev.12443>, p. 487.

⁴⁶⁰ Hookway and Francis, pp. 14-17.

founders of the WCC and the ecumenical bodies established in the aftermath of the Second World War.⁴⁶¹

An ever-changing global landscape has prompted the WCC to begin rethinking its diakonia directions. The alliance was provisionally called Action by Churches Together or 'ACT Global,' established during the Consultation on Co-operation in the Field of Diakonia and Development at the Ecumenical Institute, Bossey, Switzerland, in 2005, as 'a new alliance for churches and church-related organizations who work ecumenically in relief and development.'⁴⁶²

One of the prominent members of the Action by Churches Together or ACT Alliance is an organization in Berlin, Germany, called Brot für die Welt. This organization was launched in Advent 1959 as a grateful response to the aid given to Germany after World War II. Brot für die Welt was created from a joint task between the Protestant and free churches in the Federal Republic and the German Democratic Republic. This work began at the same time with the episcopal aid organization Misereor and has been continued since then in an ecumenical bond, example through the joint monthly project '*Brüderlich*.'⁴⁶³ It was later turned into a permanent institution under the umbrella of the *Diakonisches Werk* (Social Service Agency of the Protestant Church in Germany). Currently, Brot für die Welt works with its partner organizations in more than 90 countries worldwide to empower the poor and marginalized groups to improve their living conditions.⁴⁶⁴ Every Christmas, German churches make annual donations, especially for the Bread of the World projects.⁴⁶⁵ From this institutional framework, Brot für die Welt is not only linked to missionary work, but also to inter-church aid and other tasks of ecumenical diakonia.

Reflecting on the ecumenical movement, and following the exegetical research, it is clear that one cannot interpret diakonia only as an act of charity. Diakonia is

⁴⁶¹ Hookway and Francis, p. 21.

⁴⁶² Isabel Apawo Phiri and Chammah J Kaunda, "Diakonia and Development in a Rapidly Changing World," in *Evangelism and Diakonia in Context*, ed. Rose Dowsett et al., (Oxford: Regnum Books International, 2016), p. 184.

⁴⁶³ Fahlbusch, Lochman, and Lochman, *Evangelisches Kirchenlexikon*, Band 1 A-F, 547-548.

⁴⁶⁴ Brot für die Welt, "About Us," accessed July 29, 2021, <https://www.brot-fuer-die-welt.de/en/bread-for-the-world/about-us/>.

⁴⁶⁵ See: Diakonie Deutschland, "Diakonie - At a Glance."

characterized by a diversity of meaning in a different context. The global challenges demand the global responsibility of the church.

To address the economic problem, the ecumenical diakonia has also shown some movements. In 2012, a global conference on the new international financial and economic architecture was held in Sao Paulo, Brazil. Four organizations are part of this conference, which come to a new commitment to transforming the globalized economy into the economy of life. The four organizations are World Communion of Reformed Churches (WCRC),⁴⁶⁶ World Council of Churches (WCC), Council for World Mission (CWM), and Lutheran World Federation (LWF)⁴⁶⁷ with their long experience in public witness and advocacy.⁴⁶⁸

The ecumenical movement through these organizations has critically engaged with economic and social justice to propose a financial and economic architecture based on economic, social, and climate justice principles. For instance, in Accra Confession and Alternative Globalization Addressing People and Earth (AGAPE). Many programs organized by WCC together with LWF and other ecumenical organizations frame the resistance to economic globalization. Neo-liberalism, it claims, 'is an economy of death' or a death-dealing economic system. The empire and all the systems of death, including militarism, are rejected. The WCC reaffirmed its rejection of the neoliberal empire and the social interest movement, and other radical traditions that seek to build community life beyond the logic of hierarchy and discrimination. Such statements can be found in various of their published documents.

One of the proposals related to the world economics is known as New International Financial, and Economic Architecture (NIFEA), which involves the participation

⁴⁶⁶ WCRC, "Accra Confession," World Communion of Reformed Churches, <http://wrcr.ch/accra>.

⁴⁶⁷ LWF, "About the LWF," The Lutheran World Federation, May 19, 2013, <https://www.lutheranworld.org/content/about-lwf>.

LWF composed of 145 member churches in seventy-nine countries, representing over seventy million Christians. The LWF is a global communion of 148 churches in the Lutheran tradition, representing over 75.5 million Christians in 99 countries. Their vision is: "Liberated by God's grace, a communion in Christ living and working together for a just, peaceful, and reconciled world".

⁴⁶⁸ WCC, "Statement on Just Finance and the Economy of Life," World Council of Churches, September 2, 2009, accessed July 29, 2021, <https://www.oikoumene.org/resources/documents/statement-on-just-finance-and-the-economy-of-life>.

of people who support different proposals and solutions, the establishment of standards and frameworks, and the development of action plans to establish fairer and sustainable global financial and economic structures.⁴⁶⁹ WCC also established an Ecumenical school of Governance, Economics and Management (GEM School), which aims to build economic competencies within the ecumenical movement. GEM School was successfully conducted from 2016 in four courses in Hongkong, Lusaka, Mexico City, and Jakarta, with some projects being produced. After having attended the third GEM School in Mexico, I argue that the WCC is changing their direction from resisting to reforming economic globalization towards the economy of life.

One reflection from this section: Dialogue is many times missing in the ecumenical diakonia. The voice of the local people is not fully present and represented. Dialogue with multiple actors like states and transnational companies is lacking. In the consultation, mostly the participants are church leaders with a theological background. The messages are not heard by other actors. Global challenges require multiple disciplines and rationalities. In this sense, my argument about the fragmentary/deficient dialogue in ecumenical discussion is grounded.

The church needs to broaden and strengthen cooperation and collaboration with multiple actors or players by describing the changing landscape of diaconal action. A church needs strong partnership to build on strengths and overcome challenges. Here comes the role of the church as the go-between diakonos. The dialogue in the ecumenical movement can be a dialogue within the church and with the others outside the church.

Local diakonia needs to be completed by a global diakonia. To be effective, the efforts of the churches to address the needs of the people have to be taken up by the World Council of Churches (WCC) member churches beyond the localities.

The next chapter will present a comprehensive framework of global diakonia, a go-between diakonia in the palm oil industry.

⁴⁶⁹ WCC, "Economy of Life for All Now: An Ecumenical Action Plan for a New International Financial and Economic Architecture," World Council of Churches, 2013, accessed July 29, 2021, <https://www.oikoumene.org/resources/documents/economy-of-life-for-all-now-an-ecumenical-action-plan-for-a-new-international-financial-and-economic-architecture>.

6.4. Go-Between Diakonia

My approach to the challenges diakonia encounters in the palm oil industry is to use the concept of go-between as a theological and diakonia category. My argument is that it is only by constructing the go-between diakonia as a lens when we want to analyze the relation between diakonia as a global concept and that we must bridge multiple actors to become partners. In the context of palm oil and the economic tension, we can find different rationalities from the actors. We need to construct a more unitive paradigm that embraces the differences while respecting their languages and rationalities at the same time. The model of diakonia that I propose to bridge the differences among the rationalities is the go-between diakonia. In order to build strong stakeholder networks.

6.4.1. Biblical Hermeneutic: Jesus as a Go-between

To construct the go-between diakonia, I first briefly discuss the term *metaxu*, referring to some Greek notion of the word and Jesus as the go-between. Secondly, I ask, how can the church bridge the local into global diakonia through the go-between.

The go-between is not a new term concerning diakonia. The Australian scholar John N. Collins who studied biblical passages containing diak-words within Greek texts and Hellenistic and Christian sources, has constructed this terminology.

John N. Collins, in his book, *Diakonia, Re-interpreting the Ancient Resources*, emphasizes some roles of the *diákonos* as follows: a) In the message area, diakonos functions as the go-between, spokesmen, and courier. b) In the area of agency, diakonos functions as menial, agent, trader, servitor, mediator, middlemen in society, and intermediary between man and gods. c) In the area of attendance, diakonos functions as state's attendant or domestic attendant and servant.⁴⁷⁰

When comparing these definitions to H.W. Beyer in his article in Kittel's influential *Theological Dictionary of the New Testament*, we can find a similarity. Beyer himself mentions numerous meanings of diakonia: a) Waiting at table or provision

⁴⁷⁰ John N Collins, *Diakonia: Re-Interpreting the Ancient Sources* (Oxford: Oxford University Press, 2009), pp. 77-177.

for bodily sustenance (Luke 10:40). b) Service in genuine love, for example, charitable giving (2 Corinthians 9:12). c) Performs specific duties in the community, such as an apostle as a service (1 Timothy 1:12). d) Collections were made for the Jerusalem saints during Paul's missionary journey (1 Corinthians 8-9).⁴⁷¹

The first meaning given by H.W. Beyer is that a diakonos works as a servant waiting at the table who always goes back and forth between the kitchen and the table to serve the guests, fits very well with Collin's explanation of diakonia.⁴⁷² The characteristic of a go-between diakonos who moves back and forth between different people, region and sphere, is to act as a mediator. A deacon is communicating both between individual members and other ministers and between separate communities and different institutions.⁴⁷³

Anne Hentschel, the German theologian, claims that diakonos mostly refers to a person with authorization or in German language *eine Beauftragung*. The Greek word *διακονία* (diakonia) is synonymous with apostleship (Acts of the Apostles 1:17,25). Both terms can designate a messenger who is to deliver an object or a message. (John 13:16, Phillipians 2:25). As messenger, this person presents himself to an audience with claims to absolute authority. In his ministry, the function of diakonia depends on the nature of the task. The competencies of a messenger appear in the lists of charismata (1 Corinthians 12:4-11; Romans 12:7).⁴⁷⁴

The apostle Paul performs as an intermediary between Christ who commissioned him, and all the community, a task of mediation within the framework of a new covenant between God and human beings (2 Corinthians 3:1-3). In 2 Corinthians 5:11-21, Paul locates diakonia in a relationship with God's reconciling activity. People can reach the salvation that God brings through reconciliation.⁴⁷⁵ For Paul,

⁴⁷¹ Gerhard Kittel, *Theologisches Wörterbuch zum Neuen Testament*, Zweiter Band: A-H (Stuttgart: W.Kohlhammer, 1935), pp. 81-93.

⁴⁷² Dierk Starnitzke, *Diakonie in biblischer Orientierung: biblische Grundlagen - ethische Konkretionen - diakonisches Leitungshandeln* (Stuttgart: Kohlhammer, 2011), pp. 15-17.

⁴⁷³ Bart J. Koet, Edwina Murphy, and Esko Ryökäs, "Assessing the Role and Function of an Assistant. The Deacon in the First Two Centuries of Christianity," in *Deacons and Diakonia in Early Christianity: The First Two Centuries*, ed. Bart J. Koet, Edwina Murphy, and Esko Ryökäs (Tübingen: Mohr Siebeck, 2018), p. 10.

⁴⁷⁴ Koet, Murphy, and Ryökäs, p. 111.

⁴⁷⁵ Koet, Murphy, and Ryökäs, p. 111.

diakonia is an expression of the koinonia, the new communion of God's people in Jesus Christ. Interestingly enough, Paul even uses the expression the communion of diakonia (2 Corinthians 8:4). The Christian congregations in Corinth, Macedonia, Jerusalem, and elsewhere unite for diakonia and, at the same time, are united by diakonia, first and foremost by the diakonia of Jesus. The communion of the body of Christ is created and sustained by the love of God. To be in Christ is to be in his work of love.⁴⁷⁶

I will not refer primarily to Hellenistic tradition but the biblical hermeneutical part with Jesus as a go-between as an example. The continuation of Jesus' commissions is the church's public responsibility, which in our times I find relevant in the palm oil industry and its global economic context.

In the *Griechisch-deutsches Wörterbuch zu den Schriften des Neuen Testaments* von Walter Bauer in the 1971 and 1988 editions, we can find multiple meaning of some words relating to go-between or in-between. Firstly, the word μεταξύ. *Metaxú* means in between, in the middle, or that in between (in der Mitte zwischen, inzwischen, das dazwischen liegt).⁴⁷⁷ Secondly, the word μετέχω. *Metécho* means participate (*Anteil haben, teilnehmen, teilhaftig werden*).⁴⁷⁸ Thirdly the word μετά.⁴⁷⁹ *Metá* has some important meanings: in the midst of, under or in the company of someone (*inmitten von, unter, in Gesselschaft von jemandem*). This word can be used as preposition and also as verb. As preposition it denotes community within which something happens, or come with someone (*Gemeinschaft bezeichnend, innerhalb derer etwas geschieht, in deren Gemeinschaft oder Begleitung sich etwas zuträgt und in jemandens Begleitung kommen*). As a verb, this word has a powerful meaning. To take someone with you as a companion and to be with someone (*jemanden als Begleiter mitnehmen, mit jemanden zusammensein*).

⁴⁷⁶ Nordstokke, *Liberating Diakonia*, p. 23.

⁴⁷⁷ Walter Bauer, *Griechisch-deutsches Wörterbuch zu den Schriften des Neuen Testaments und der frühchristlichen Literatur*, ed. Kurt Aland (Berlin: de Gruyter, 1988), p. 1038.

⁴⁷⁸ Walter Bauer, *Griechisch-Deutsches Wörterbuch zu den Schriften des Neuen Testaments und der Übrigen urchristlichen Literatur* (Berlin: de Gruyter, 1971), p.1016.

⁴⁷⁹ Bauer, *Griechisch-deutsches Wörterbuch zu den Schriften des Neuen Testaments und der frühchristlichen Literatur*, pp. 1029-1030.

In the Bible, we can see the word *metá* defines God's help (*Gottes Beistand*) in Genesis 21,39; Matthew 1:23, Luke 1:28, Romans 15:33, by God's hand (*von Gottes Hand*) in Luke 1:66, and from Christ (*von Christus*) in Matthew 28:20.

The Anglican theologian Samuel Wells in two of his books *Incarnational Ministry*⁴⁸⁰ and *Incarnational Mission*,⁴⁸¹ argues that *metá* is the most important word in Christianity, as a basis of a church that is related to the people, especially the needy and the oppressed.

From the definition of the words in relation to *metá*, we can conclude that as go-between diakonos, a Christian, needs to be present in the middle of the people, go-between societies, in-between actors, in-between regions, or stakeholders. Here lies the clearance of our task. The church should stand firm, not serving inside the church only but with the courage to go out to society and the public sphere, standing between the people, the states, corporations, and other institutions. The next task is to partake, participate in the world, and bring other people to participate. Many Christians have lost their voice, and their presence is not visible; go-between diakonia brings them back to this relationship.

Plato uses this word to express the concept of "having a share in." Similar to the meaning of *koinonia* (participation/indwelling/communion), with it the overtones of sharing-in-being, that felt an interconnection with all of the cosmos and its human and nonhuman inhabitants.⁴⁸²

In the New Testament, *koinonia* means the relationship between humanity and God to denote 'partaker' of Christ (Hebrews 3:14) or of the Spirit (Hebrews 6:4). The concern is with sharing in the sufferings and patience of Christ,⁴⁸³ an expression for a relationship, for genuine fellowship with one another and with Christ (1 John 1:6),

⁴⁸⁰ Samuel Wells, *Incarnational Ministry: Being with the Church* (Grand Rapids, Michigan: William B. Eerdmans Publishing Company, 2017).

⁴⁸¹ Samuel Wells, *Incarnational Mission: Being with the World* (London: Canterbury Press, Norwich, 2018).

⁴⁸² Julie Canlis, *Calvin's Ladder: A Spiritual Theology of Ascent and Ascension* (Grand Rapids, Michigan: Eerdmans, 2010), pp. 6-7.

⁴⁸³ Colin Brown, *The New International Dictionary of New Testament Theology* (Grand Rapids, Michigan: Zondervan, 1986), pp. 635-639.

and to know him (1 John 2:3) and abide in him.⁴⁸⁴ With other people, we also share their sufferings.

The word *metá* helps us to reflect, where is our standpoint. With which the church, through its diakonia, stands with the people. The people take us as a companion, we stand and walk with them in their journey. This task is what the world needs our diakonia to do, to be with the people. In Matthew 1:23, Jesus is introduced as Emmanuel which means God is with us. Jesus, in his ministry, had shown this *metá* when he encountered many people within different situations and rationalities. Jesus was a go-between.

In his article, Joas Adiprasetya argues that Christ as the in-between becomes a symbol for Christians to engage with the world. Christ is present in the power of the spirit as the in-between of God and creation, who reconciled and mediated (2 Corinthians 5:18). Whenever the church plays the mediator role, Christians represent the "in-between Christ."⁴⁸⁵ In diakonia, whenever we mediate the cries of the people to God, we participate in God's mission to the world.

We can trace Jesus as diakonos and his role as the go-between in the gospel of John. Jerome Neyrer presents that Jesus is God's broker in this gospel. When John speaks of Jesus as the door (or the gate), Jesus is seen as an agent or broker quite similar to roles performed by an *ángelos* (envoy), *apóstolos* (ambassador), *diákonos* (servant/go between), *diskastés* (judge), *epitropos* (agent, representative) in the Greco Roman world.⁴⁸⁶

In John 1:4, Jesus is described as the "light of the people." Through him, we are mediated to the external life (John 3:16-17,36). Jesus leads the people to the living water (John 4:10,14) and abundant life. Jesus is the mediator between God and human beings.⁴⁸⁷ When Jesus introduces himself as the go-between, he wants us to

⁴⁸⁴ Brown, 635-639.

⁴⁸⁵ Joas Adiprasetya, "The Liturgy of the In-Between," *Scottish Journal of Theology* 72, no. 1 (February 2019): 82–97, <https://doi.org/10.1017/S0036930618000704>, pp. 85-86.

⁴⁸⁶ Jerome H. Neyrey, *The Gospel of John in Cultural and Rhetorical Perspective* (Grand Rapids, Michigan: Eerdmans, 2009), pp. 441-453.

⁴⁸⁷ Dennis T. Solon, "Diaconia in Human Dignity - Asian Theological Considerations," in *International Handbook on Ecumenical Diakonia: Contextual Theologies and Practices of Diakonia and Christian Social Services, Resources for Study and Intercultural Learning*, ed. Godwin Ampony and Martin Büscher et.al, (Oxford: Regnum Books, 2021), pp. 319-320.

be a go-between to other people. Jesus presents himself in John 6:35 as the bread of life. When we translate the concept into the socio-economic understanding, sharing the bread of life means sharing our table; we sustain the community in the fellowship. John Dominic Crossan wrote that the core of the original Jesus movement was the shared egalitarianism of spiritual (healing) and material (food) resources.⁴⁸⁸ In the gospel many times through his miracles, Jesus healed the sick and shared meals with the outcasts. The body of Christ appeared as a shared community of healing and eating, in which physical and spiritual resources are available to all without discrimination or hierarchy. It is one of the old and universal peasant dreams of a just and egalitarian world.⁴⁸⁹

In his movement, Jesus thinks not just of personal but of social, structural, or systemic injustice. That is the reason for his visitation to Jerusalem to demonstrate his protest against imperial injustice and religious collaboration. One passage in the gospel shows the controversial act of Jesus in this regard, written in the gospel of Mark 11:15-17. We usually call this action the Cleansing of the Temple. It was a symbolic destruction of the temple. What Jesus did, was fulfilling the prophecy of Jeremiah 7:29. He symbolically and predictably ended the fully effective taxation, ritual, and administrative operations of the temple.

Jesus came to Jerusalem and entered the temple. He began to expel sellers and buyers from the temple. Jesus overturned the money changer's desk and the pigeon seller's seat. He taught and said to them: Is it not written that my house shall be called a house of prayer for all the nations? But you have made it a den of robbers (Mark 11:17).⁴⁹⁰ Notice that a "den" is not where robbers do their robbing but where they flee for safety with the things they have robbed elsewhere. A den of robbers is a cave of violent ones. It becomes the center of an oppressive system. To what extent has the temple become a "robber den"? Jeremiah's meaning is obvious: it is a robber's lair precisely because it becomes the center of the oppressors, who do not do justice but exploit the weakest people in society. This act is an accusation against the powerful elites centered on the temple and the monarchy. Their daily injustice

⁴⁸⁸ John Dominic Crossan, *Jesus: A Revolutionary Biography* (New York: HarperOne, 2009), pp. 120-121.

⁴⁸⁹ Crossan, pp. 126-127.

⁴⁹⁰ Mark 11:17 NRSV

made them robbers, and they regarded the temple as their safe home and place. When Jesus referred to the temple as a ‘den of robbers,’ he did not refer to the activities of money changers and sacrifices to animal dealers. Instead, he accused the temple authorities of cooperating as robbers at the top of the imperial ruling system.⁴⁹¹

Jesus was criticizing the ruling system. He executed a symbolic act, challenging the symbol of power. Moreover, his actions are personal; he establishes a relationship between man and God. This relationship is the path to the transformation of personal values and attitudes. Jesus is a transformative go-between. However, on the other side, his movement is also political—a path of resistance, confrontation with domination, and advocacy for a new alternative vision of life. Jesus has passion and shares the passion for a different kind of world, a world of justice and righteousness.

Jesus' message and activity challenged the domination system of his time. He began his mission in Galilea, a region ruled for about thirty years by Herod Antipas. As in agricultural societies generally, the system created and governed by the powerful and wealthy served their financial interests and was economically oppressive to the rest of the population. The condition of the peasant class has deteriorated. More and more farmers lost their land and fell into increasingly desperate poverty. Being landless meant living on the edge of poverty.

When we reflect on the presence and attitude of Jesus from the Bible and his role as the go-between, to the context of oil palm expansion and the social, economic, and ecological problems that accompany it, what is the message that Jesus conveys?

As a go-between, Jesus mostly spent time with the marginalized, the oppressed, and the poor. Jesus was with them, taught them, performed miracles. Jesus lived in harmony with the people.

However, there were times when Jesus encountered and provoked the scribes, priests, politicians, or states and oppressors critically and controversially as the action in the temple.

⁴⁹¹ Marcus J Borg, *Jesus: Uncovering the Life, Teachings, and Relevance of a Religious Revolutionary* (San Francisco: HarperSanFrancisco, 2006), pp. 225-229

In our times, the risen Jesus will, of course, be present and stand in the midst of and with palm oil farmers who are outcasts from economic relations, marginalized people whose rights have been taken away, indigenous peoples whose lands are taken and paid unfairly. Nevertheless, Jesus certainly would not have done enough. There will be confrontation and criticism to the government and the business people, who are greedy and oppress the people, as well as the church and other religious institutions who turn a blind eye to the injustices and do not courageously enough speak out for truth and justice and take their stand.

Jesus teaches us; the go-between diakonos is not a weak person, rather a person with authority and power. His authority comes from God. The go-between diakonos is humble but courageous enough to provoke, criticize, condemn, and advocate when justice and righteousness are absent. When state and corporations do not show their responsibilities but do unethical practices, and their fellow Christians are silent.

6.4.2. Go-between bridging Local Church to Global Diakonia

As one body of Christ, each member of the church has its own function and task and performs it through the gifts that have been given to it. In Jesus, all members share sorrow and joy, support each other in the mission of Christ in particular to hear the cries of those in need and to stand up for their rights. In this universal relationship, the commitment to the local communities and genuine relationships in the local context cannot be neglected. We begin to see things over the eyes of the other, to feel what they are feeling, to suffer, developing a genuine association with the other. Problems and challenges will be at first manifest at the local community level. We are all rooted in our local context. Without a commitment to the local community, these issues go unnoticed, ignored, or actively denied. Our citizenship of the global community must not come at the expense of our local obligations.⁴⁹²

David Bosch pinpoints the priority of the local church in praxis since the local church is the primary bearer of the mission and the universal church finds its true existence in the local churches.⁴⁹³ In other words, the church is seen to be a global

⁴⁹² Neil Ormerod and Shane Clifton, *Globalization and the Mission of the Church* (London: T & T Clark, 2009), pp. 150-151.

⁴⁹³ Bosch, *Transforming Mission*, pp. 378-380.

community of local churches and national and global, interconnected with one another. From this perspective, we can see the metaphor of the body of Christ described by Paul in 2 Corinthians.

Diakonia will use both approaches, the top-down and bottom-up construct. The dialogue occurs among local communities at the grassroots level and extends to the national level to find common ground, giving a vital element to the global ecumenical movement. The dialogue process takes place at all levels.⁴⁹⁴ Without a local focus, global strategy is just insubstantial talk. Our global citizenship must not come at the expense of our local obligations. This strategy will help us bring real, empirically-based variables into the equation and nuances of our understanding of what is going on in the field.

Global diakonia can never be separated from the local because it is the local voices that are heard and the struggles that are felt; what differentiates global diakonia is the level of approach, the strategy to help the suffering in the local people. The global diakonia is designated on a global-level. Here we find the connection of prophetic diakonia with institutions in this global-level. From this point, the global diakonia intends to integrate local diakonia, helping those at the local level. That is the primary reason why the empirical research in Papua is the initial chapter in this dissertation. Closer contact with local congregations and support diaconal work at the grassroots level need to be put seriously in the agenda of global diakonia.

The go-between is a bridge-builder, taking the church into the community and bringing the people's concerns and needs to God. A bridge is a construction made to carry people both ways, and it is also related to communion building identifying the process of reconciliation and inclusion.⁴⁹⁵ Diakonia builds different bridges between the church and society. A go-between is accompanying; therefore, it needs to listen and move between people in changing situations and in varying contexts. Communication is a fundamental component, both in dialogue and prophetic. The essential element of genuine conversation is 'seeing the other' or 'experiencing the

⁴⁹⁴ Ormerod and Clifton, *Globalization and the Mission of the Church*, pp. 150-151.

⁴⁹⁵ Kari Jordheim, "Bridge-Building and Go-Between: The Role of the Deacon in Church and Society," in *Diakonia as Christian Social Practice: An Introduction*, ed. Stephanie Dietrich et al., (Oxford: Regnum Books International, 2014), p. 200.

other side.⁴⁹⁶ In a community, we are not just side-by-side with many other persons; we are with (see the meta = with) them and connected to them.⁴⁹⁷

The dialogue that engages all actors in-depth on critical issues, particularly palm oil, must guide future ecumenical cooperation. Churches need to build a network, form alliances across denominations and religions, encourage participation, and invite multi-disciplinary perspectives like economic, management, and leadership. By such encounters with other stakeholders, the transformation will possibly happen.

The early church has experienced a radical transformation of Christian life, its value, social, and cultural dimensions by the encounter and dialogue between Judaism and Greco-Roman cultures.⁴⁹⁸ Early christianity became a more inclusive community. Through such reflection, "common meaning" can be achieved.⁴⁹⁹

6.5. Interim Result

Go between diakonia is the diakonia between the two worlds, between multiple stakeholders and courageously go outside to the world. Go between diakonia is widening the concept of public diakonia into the global world.

Throughout the decades, there was a shift in our diaconal thinking. The Greek word *διακονία* (diakonia) and two of its cognates, namely as a noun *διάκονος* (diákonos) and the verb *διακονεῖν* (diakonein) have also been heavily researched among scholars. In German history, diakonia is understood as love for one's neighbor (*Nächstenliebe*). This proclamation is also written in the Diakonie Deutschland profile.⁵⁰⁰ The global world has challenged our reflection and practice both at the local and global levels. Within multiple encounters of diakonia to diverse contexts

⁴⁹⁶ Maurice S. Friedman, *Martin Buber: The Life of Dialogue* (Chicago: Univ. of Chicago Pr, 1976), p. 87.

⁴⁹⁷ Philip Francis Esler, *New Testament Theology: Communion and Community* (Edinburgh: Alban, 2005), pp. 48-49.

⁴⁹⁸ Ormerod and Clifton, *Globalization and the Mission of the Church*, p. 141.

⁴⁹⁹ Carl F. Starkloff, *A Theology of the In-between: The Value of Syncretic Process* (United States: Marquette Univ. Press, 2002), pp. 20,84.

⁵⁰⁰ Diakonie Deutschland, "Unsere Geschichte im Überblick," Infoportal - Diakonie Deutschland, accessed July 29, 2021, <https://www.diakonie.de/unsere-geschichte-im-ueberblick>.

and contemporary biblical research, diakonia has found its way to show the love of Christ in the public spheres.

Diakonia is an integral part of being church and cannot be separated from what the church proclaims and celebrates. Churches need spiritual and practical dimension, and both views must be dialectical. Therefore, their rationality reflects on the meaning of being a church and being in the world.⁵⁰¹ In its reflection and action, Diakonia has to be inter-disciplinary and multi rationality, taking into consideration insights from multiple sciences and actors.

⁵⁰¹ Kjell Nordstokke, *Diakonia in Context, Transformation, Reconciliation, Empowerment* (Geneva: The Lutheran World Federation, 2009), pp. 27-30.

Chapter 7

Interdisciplinary Transformation: An Ecclesiological Model Bridging the State, Business and Society

The previous chapter focused on global awareness of diakonia and transformation in diakonia from a German, Indonesian, and ecumenical perspective. It offers a brief historical overview and describes the change in public responsibility and its challenges. Diakonia is not seen only as humble service. With biblical hermeneutics, a go-between diakonia is a model proposed to the palm oil industry to be diakonos with authority as a bridge between state, business, and society.

This chapter expands into the management and strategic transformation carried out and networking with relevant stakeholders. The framework for a global diakonia process in the palm oil industry is being developed to expanded church participation in the public sphere.

7.1. A Concept of Embeddedness: Multi Rationality Dialogue and Participation

Globalization and digitalization have caused an increase in the complexity of modern organizations. We are living now in a pluralistic world and often find conflicts that do not emerge simply because of communication problems but because of a collision of different common meanings. Over the past two hundred years, our society has also been heavily differentiated into specialized functional systems; each has its ideas of success, forms of communication, and a certain functional logic and sense. Politics provide state regulations for the people, business, or economy to ensure the supply of goods and services, research and science develop new knowledge and technology. Religion's function, according to Émile Durkheim, is to generate solidarity and integrate morality, which is hardly accepted nowadays by people because, on the contrary, religion is one of the highest sources of conflict.⁵⁰²

⁵⁰² Niklas Luhmann and André Kieserling, *A Systems Theory of Religion* (Stanford, California: Stanford University Press, 2013), p. 85.

Systems are relations between elements or the connection of structure and process. They can only operate following their own rules to be an operationally closed system. According to Niklas Luhmann, a system is not a unity but a difference and operationally closed. He used the word *Autopoiesis* meaning self-organization. The structure can only be constructed through the operation of the system itself. Therefore, the economic, legal, political, religious, or education systems all have their language. For instance, the economy's language is profit or money, and the language of politics is power.

Consequently, we have to face the difficulty of conceiving the unity of a difference and be influenced through structural couplings. The consciousness and communication occur if there is structural coupling. Language has served as the coupling mechanism, which itself has been marked by enormous complexity.⁵⁰³

The structural coupling of different functional systems means that one institution has to adjust to two or more operating systems simultaneously, which can be found in many organizations these days.⁵⁰⁴ Some organizations operate simultaneously in several social function systems and must balance the contradictory logics of these functional systems in their internal structures and decision-making processes. That is one of the reasons why the concept of the network has enjoyed great popularity for some time now. Networks make communication necessary, create network connections along the value chains, ensure that they are reliable and valuable partners in the affiliation.

One example, an institution of diakonia cannot only stay in the religious sub-system but also invite economic and science or technology innovation because diakonia takes place in a pluralistic context. We have to consider, especially in the decision-making process, a multitude of different ideas of success, languages, and expectations of different actors, be it individuals, communities, or organizations. Diakonia needs to be responsive to various challenges and dynamics of different

⁵⁰³ Niklas Luhmann and Dirk Baecker, *Introduction to Systems Theory* (Cambridge, UK: Polity, 2013), pp. 43-83.

⁵⁰⁴ Rudolf Wimmer, "Die neue systemtheorie und ihre Implikationen für das Verständnis von Organisation, Führung und Management," in *Unternehmerisches Management - Herausforderungen und Perspektiven*, ed. Johannes Rüegg-Stürm and Thomas Bieger (Bern: Haupt Verlag, 2012), pp. 11-13.

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environmental spheres such as economic, ecological, technological, and societal. This pluralistic context with multiple rationalities needs to be embraced by the church and diakonia. We cannot think in a mono-rational way nowadays, even though it is simpler. We cannot interpret our rationality as central, authoritative, and exclusive rationality. People in the church and people outside the churches do not speak the same language, interpret and analyze things in similar ways or have similar success and expectations criteria. We have to adapt to multiple rationalities. We also have to bear in mind that not every different rationality can be incompatible in the decision-making process, and not every contradiction ends in conflict. One significant contribution from Luhmann's systems theory is that society is not formed by people but by communication.⁵⁰⁵ Therefore, the key to meet other actors or institutions is to address the multi rationality in communication and find the common meaning in between.

Martin Büscher and Beate Hofmann formulate the four different strategies for dealing with conflicting demands⁵⁰⁶ in the table as followed:

Table 7-1. Practices of Dealing with Multirationality

	Polarisation	Support
Explicit Practices	Conflict, Competition, Rejection between Rationalities	Making Multirationality Fruitful or Productive
	Avoidance	Tolerance
Implicit Practices	Implicit Dominance of a Rationality	Implicit Mediation between Rationalities
	Monorational	Multirational

⁵⁰⁵Kuno Schedler and Johannes Rüegg-Stürm, "Multirationality and Pluralistic Organisations," in *Multirational Management: Mastering Conflicting Demands in a Pluralistic Environment*, ed. Kuno Schedler and Johannes Rüegg-Stürm (Hampshire, UK: Palgrave Macmillan, 2014), p. 47.

⁵⁰⁶ To understand more about the four strategies and the practices in the organisation see: Kuno Schedler and Johannes Rüegg-Stürm, "Strategies for Dealing with Multiple Rationalities," in *Multirational Management: Mastering Conflicting Demands in a Pluralistic Environment*, ed. Kuno Schedler and Johannes Rüegg-Stürm (Hampshire, UK: Palgrave Macmillan, 2014), pp. 157-194.

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Source: Martin Büscher and Beate Hofmann, "Multirationales Management in diakonischen Unternehmen- Hermeneutische Grundlegung eines diakoniewissenschaftlichen Paradigmas," p. 37,

Note: Büscher and Hofmann use the word 'support', while Schedler and Riegg-Stürm, use the word 'exploitation.'

In diakonia science, the question of how to deal with multirationality is reflected in the dialogue between theology and economics. The pioneer of this dialogue was Alfred Jäger. In 1986, he described the task of diakonia management as integral guidance or leadership (*integrale Führung*) in his book *Diakonie als christliches Unternehmen*, in which theology and economics are closely related.

Multirational management perceives diaconal institutions as pluralistic organizations. It will develop fundamental skills in the relevant specialist areas, mediates and communicates between different rationality.

This multirational practice requires the willingness to actively get to know and explore different rationalities in a dialogical process in which multirational competence is developed, the conventions of multirational cooperation are tested, reflected, and evaluated in learning arenas.⁵⁰⁷

Getting to know other rationalities also means being able "to move in them", practicing the change of perspective, to portray from the point of view of the other rationality or their understanding. For example, we need to understand that any corporation's success factor is profit. In dialogue with them it needs to be defined, how to achieve this success factor without neglecting other success factors, for example, the common good for the society. Therefore, churches need to have competencies in dealing with multiple rationalities, especially the church leaders, to make and implement their decision-making capacity and be responsive and flexible to respond to pluralistic demands. Multi rationality is not a hindrance or limitation to the growth of the church. It can increase the resources and public

⁵⁰⁷ Martin Büscher and Beate Hofmann, "Multirationales Management in diakonischen Unternehmen- Hermeneutische Grundlegung eines diakoniewissenschaftlichen Paradigmas," in *Diakonische Unternehmen Multirational führen: Grundlagen - Kontroversen - Potentiale*, ed. Beate Hofmann and Martin Büscher (Baden-Baden: Nomos, 2017), pp. 37, 42-44.

outreach of the church. One example is private-public partnerships or the opportunity of cooperation between corporations with the third sector.⁵⁰⁸

One important thing to consider is to reflect first on our rationality and values. *Eigenvalues*, bring forth what recognizes itself as the organization's self, both inside and outside. This self-observation and self-reflection build the self of the organization. Moreover, church or diakonia needs to identify, assessed, and mobilized their resources, such as financial resources, knowledge, infrastructures, employees and their capabilities, reputation and trust. After we understand ourselves, we start to meet other rationalities and start to dialogue with them. In this dissertation, the principle of embedded economic ethics can be the basis of the rationalities of the church.

During the dialogue, we should see the world not as something given but as a result of the communicative negotiation process because the world is a dynamic world of human coexistence. The fourth generation of the St. Gallen Management Model (SGMM) is based on a communication-centered perspective of organizational value creation in the interplay between environment, organization, and management. The stages are understanding environmental spheres: economic, science, politics, law, ethics, public, society, and nature. Followed by dealing with controversies where we are challenged and changed by controversies, encountering stakeholders, and establishing sustainable relationships with different stakeholders.⁵⁰⁹

7.1.1. Bridging Embeddedness to the State

The debate around the state's role in the market can be found in the dialogue with the market economy. Some people are determined to limit the state's economic role in policing and enforcing its laws. Their role, they argue, is simply to secure private property. Other people state that markets could only function if basic rules are established and an appropriate regulatory framework exists. Regulation is about the rules of business conduct. It includes laws and legal acts, and involves other forms

⁵⁰⁸ Alexander Brink, "Das Vier-Generationen-Modell unternehmerischer Verantwortung: ein Vorschlag zur Entwicklung regionaler moralischer Intelligenz," *Wirtschaftspolitische Blätter*, no. 3/4 (2014): 569–82, pp. 580-581.

⁵⁰⁹ Johannes Rüegg-Stürm and Simon Grand, *The St. Gallen Management Model: English Translation of the Fourth Generation of the German Text* (Bern, Switzerland: Haupt Verlag, 2016), p. 72.

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of formal or informal rulemaking and enforcement. The regulation comprises broader government policies, concepts, goals, and strategies, all of which ultimately facilitate or restrict the activities of economic participants.⁵¹⁰ Based on the embedded economic market, the role of the state is crucial.

First and foremost, the state provides public goods for the people and embeds the market to institutions and regulations that promote the common good, protecting ecology and labor rights. Kate Raworth commented that the state is essential. Therefore, we need it to be accountable.⁵¹¹

Following the Indonesian Economic Development plan with the vision of 2025 of a self-sufficient, advanced, just, and prosperous Indonesia, we can identify that the neo-liberalization economic criteria mark the plan's economic philosophy. Some examples are: the Indonesian state will reduce financial costs by providing infrastructure and deregulation of taxes and customs, labor regulations, licensing, and granting various incentives to private sectors. These are intended to reducing costs from the supply side for private companies. Rules are adapted to encourage trust and maximum participation from investors and foreign direct investment for industrial and special economic zone development.

There are some elements like Corporate Social Responsibility (CSR) that acknowledge the criteria of sustainability. Those can be considered as being added, not as an integral part of the concept.

The philanthropic form of CSR dominates the agenda of most companies. Corporate social responsibility is a necessary business activity in Indonesia. According to the Investment Law No. 25 of 2007 and Limited Liability Company Law No. 40 of 2007, every investor and company must implement corporate social responsibility. However, both of these laws only require the fulfillment of obligations and do not specify implementation guidelines. Some local governments

⁵¹⁰ Rüegg-Stürm and Grand, p. 491.

⁵¹¹ Kate Raworth, *Doughnut Economics: Seven Ways to Think like a 21st Century Economist* (Vermont: Chelsea Green Publishing, 2017), p. 58.

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have formulated corporate social responsibility management policies in their respective fields based on their interests and perceptions.

The structure of Indonesia's current economic plan primarily focuses on agribusiness, particularly palm oil and big industries that extract and harvest natural resources. However, there are still limited industries on added-value products. The Indonesian government needs foreign direct investment. The development model remains investment-centered and prioritizes the needs of the business. The physical infrastructures aim to reduce the company's operational costs, as well as regulations and incentives.

The awareness of environmental costs caused by the industries is mentioned in the economic development plan. However, the strategies to solve the issues are not written in the document. Human dignity is not recognized, including indigenous people and their right to Free, Prior and Informed Consent (FPIC) before the development occurs. The indigenous people whose lives are affected by the market have a right to participate in the process and have the right to know how the decisions are made.

The state of Indonesia expects the development will bring prosperity and benefit the people; nevertheless, there is no safeguard for local communities whose lands and resources will be used for the long list of the development projects. The resolving of land tenure conflicts and human rights are absent in the plan, so is the culture.

Another characteristic of the recent period of globalization has been the proliferation of global capital flows, including Foreign Direct Investment (FDI). It is the consequence of the privatization and liberalization policies pursued by the states.⁵¹² At the macroeconomic level, the benefits of foreign direct investment can be realized by increasing investment, employment, foreign exchange, and taxation. The impact of FDI depends on many factors, including host country policies, the quality of the labor market, infrastructure and technology, economic environment,

⁵¹² Jeff Atkinson and Martin Scurrah, *Globalizing Social Justice: The Role of Non-Government Organizations in Bringing about Social Change* (Basingstoke: Palgrave Macmillan, 2009), p. 3.

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and investment itself. However, some potential drawbacks include a lack of positive linkages with local communities, the potentially harmful environmental impact of FDI, especially in the extractive and heavy industries, social problems, and competition in national markets. The state plays a significant role in ensuring that FDI positively impacts the people, not only the corporations. By strengthening the sensibility, competencies, and responsibility of public leaders and substantial restrictions.

In a global economy, knowledge and skills are significant sources of comparative advantage replacing natural resources. Human Capital is one priority of the Indonesian state for the global market competitiveness. However, there is no education equality among the people. From the empirical research in Baidub, in the province of Papua, only one school can be found in the region, which is a primary school and has existed for almost thirty years. Education is the right for all people, and the state needs to ensure equality as a part of the public good for the people. In a globalizing society, the governments must work cooperatively with the private sector, civil society organizations, international financial institutions, and public interest groups to develop institutions that support and sustain economic and social development.⁵¹³

On September 19th, 2018, Indonesian President Joko Widodo officially signed a moratorium in Presidential Instruction Number 8 of 2018 concerning the suspension and evaluation of oil palm plantation licensing and increasing the productiveness of oil palm plantations.⁵¹⁴ The goal of the moratorium is to solve issues, including plantations in protected areas, land clearing 'High Conservation Values' areas, and overlapping licenses. This rule has not included technical permits

⁵¹³ Dennis A. Rondinelli and G. Shabbir Cheema, "Reinventing Government for the Twenty-First Century: An Introduction," in *Reinventing Government for the Twenty-First Century: State Capacity in a Globalizing Society*, ed. Dennis A. Rondinelli and G. Shabbir Cheema (Bloomfield: Kumarian Press, 2003), pp. 1-2.

⁵¹⁴ Green Peace, "Time for a Ban on Deforestation for Palm Oil, not a Moratorium, Says Greenpeace," Greenpeace International, accessed August 20, 2021, <https://www.greenpeace.org/international/press-release/18595/time-for-a-ban-on-deforestation-for-palm-oil-not-a-moratorium-says-greenpeace>.

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such as for waste management and land ownership certificates. As a result, the licensing issue has not been resolved; many of them are still conflicting and overlapping.

The legal system of the Indonesian state has several levels: Central Regulations, Provincial Regulations, and Regency/Municipal Regulations. To maintain the harmonization of law, every regulation in the lower level should follow the higher level and need to be synchronized. However, with the regional autonomy authority, some local governments established their policies in their respective areas based on their interests and perceptions. This problem impacts the unsustainability of palm oil plantations. Many problems occur due to the absence of a land verification mechanism, a single map to guide the issuance of permits, and the lack of coordination between local governments and ministries/agencies in issuing and controlling permits. The lack of good governance of Provincial and Municipal Governments caused many conflicts between the community and the companies, which is also present in Papua.

Departing from this explanation, to ensure a sustainable palm oil industry in Indonesia, the state is required to become a solid and dignified state with a state-regulated market model.

Measures:

1. The state needs to promote a human rights and environmental sustainability-based economic development plan. This plan will ensure justice and fairness to all people.
2. Before signing trade and investment agreements, the state needs to consider the impact and calculate the comprehensive costs (social, ecological, and cultural costs).
3. The state needs to ensure social justice, regulate the financial sector, provide a high-quality education for the people, furnish infrastructure, including institutional infrastructure such as a legal system, promote technology to agriculture, and assist palm oil farmers.

4. For indigenous peoples, their relationship to their lands, territories, and resources is essential. The state needs to defend the rights of indigenous communities and their right to land, including environmental rights.
5. The state should shape the Corporate Social Responsibility (CSR) agenda through regulations and policies related to CSR issues, including social development, economic governance, and environmental governance-related laws.
6. Regarding a moratorium, the state needs to allocate a specific budget to implement the moratorium in all regions in Indonesia and establish a technical guide for local governments. The state needs to evaluate and monitor the implementation and set up a precise communication mechanism between the Central and Regional Governments.

7.1.2. Bridging Embeddedness to the Business

A critical finding from the empirical research in the Palm Oil Industry is Corporate Social Responsibility (CSR) related to cultural family relations. The community, government, and corporation use the local Indonesian term *tali kasih* or English rope of love or *Liebesband* in the German language for CSR. In Indonesian culture, *tali kasih* means something given as a sign of brotherhood/sisterhood. These signs of brotherhood or sisterhood of the palm oil corporation are shown by building schools, hospitals, and scholarships. *Tali kasih* seems to exist in various cultural contexts. In China, they called this "social relation" business *Guanxi*. This term has influenced several domains of social life in China. *Guanxi* is a connection between two individuals, is a personalized tie, which can be achieved through sympathy and helping neighbors. *Guanxi* sees that economic actors are socially embedded. Therefore, they should operate respectably. Trust and loyalty need to be maintained to ensure continuous business success and networks.⁵¹⁵

Analyzing the positive meaning of this term in the business world can transform how the business sees itself within society. There will be a transformation of concepts. Business operations will primarily be based on values and attitudes rather

⁵¹⁵ Yanjie Bian, *Guanxi: How China Works* (Cambridge: Polity Press, 2019), pp. 2-5,126-27.

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than just standards or restrictions. They will value family relations. The relation built between business and society in the free market is interpersonal. With this concept, the current ugly face of the palm oil industry, hopefully, may be reformed. The business will be stakeholder-driven, based on social relationships and networks. CSR in the Asian context is a family-based relationship. This is an ideal face of an organization that should be nurtured. Unfortunately, the operatives of the palm oil corporations in Papua are far from perfect.

There are scientifically based findings on the corporate responsibility of German companies through the recently published Corporate Responsibility Index 2013 that a lived culture of values is a key success factor in the implementation of Corporate Social Responsibility in the company's overall strategy. We are aware that ecology in some places has a strong connection with culture. Diakonia can promote and develop a joint project as a third party with corporations to support professional CSR management and build-up and transfer knowledge. The new regulation is ultimately highly dependent on the context and the industry, region, or size of the company. A palm oil corporation must certainly follow different standards than one of the car manufactures.

The intensified pace of globalization argued by many people has diminished the role of the nation-state. The influence of the state is weakening. At the same time, a number of problems across geographic borders has increased, and requires solutions on all levels, including the global one. Klaus Schwab argues that as state power has shrunk, the business sphere of influence has widened. The corporations have shown their impact in communities and the environment discernibly. Many civil society institutions now focus on cooperating and working together with business instead of confronting it.⁵¹⁶ Nevertheless, dealing with unethical companies, diakonia must dare to criticize them firmly.

⁵¹⁶ Klaus Schwab, "Global Corporate Citizenship: Working with Governments and Civil Society," *Foreign Affairs* 87, no. 1 (2008): 107–18, pp. 113-18.

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In the last two decades, a more thorough direction has increasingly developed that principally seeks to reform from the inside. Corporations and industries are encouraged to voluntarily manage their affairs in a manner consistent with the broader expectations of society. Churches in the global world are witnessing how the actors of the businesses take the initiative to gather and discuss their activities and responsibility.⁵¹⁷ Two examples are the Church Investor Group (CIG) in the United Kingdom⁵¹⁸ and the Ecumenical Council for Corporate Responsibility (ECCR), which have historically helped shareholders influence banks to stop segregated lending to South Africa.⁵¹⁹ Another similar organization is Interfaith Centre for Corporate Responsibility (1974).⁵²⁰ The goal is to improve the sense of responsibility of the corporations. In Africa, one prominent interfaith initiative is the Interfaith Standing Committee on Economic Justice and Integrity of Creation (ISCJIC) which tries to facilitate the religious leaders' role in advocating effectively for social and economic justice.

Palm oil is often criticized for its lack of sustainability, the threat to biodiversity and local livelihoods. The dominant alternative response to this criticism is certification by Roundtable for Sustainable Palm Oil (RSPO), where stakeholders within and outside the supply chain have defined and elaborated concrete criteria for sustainable palm oil production. However, other strategies promoting sustainability with the palm oil supply chain exist, which we could find in chapter four. How and what they can contribute to more sustainable and equitable palm oil provision has become an important research theme.

⁵¹⁷ Celine Louche and Tessa Hebb, "Socially Responsible Investment in the 21st Century: Does It Make a Difference for Society?" in *Critical Studies on Corporate Responsibility, Governance and Sustainability* (UK:Emerald Group Publishing Limited, 2014), <https://doi.org/10.1108/S2043-905920140000007023>, p. 37.

⁵¹⁸ See: CIG, "About Church Investors Group," accessed August 20, 2021, <https://churchinvestorsgroup.org.uk/about/>.

⁵¹⁹ See: ECCR, "ECCR – The Ecumenical Council for Corporate Responsibility," *ECCR* (blog), accessed August 20, 2021, <https://www.eccr.org.uk/>.

⁵²⁰ See: ICCR, "About ICCR (Interfaith Center on Corporate Responsibility)," ICCR, accessed August 20, 2021, <https://www.iccr.org/about-iccr>.

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There is a discussion that the global economic and financial system can no longer be controlled and regulated by nation-states. In this discussion it is assumed that at a global level, corporation has a more dominant role than the state, because governments are bound by their territorial boundaries, and thus have only limited influence beyond. With their power, some corporations find it easier to negotiate tax levels, environmental standards, labor standards, or human rights in less-developed or weak law enforcement countries because they offer lower social and ecological protection standards to attract foreign investment.⁵²¹ Reforming corporate governance around the globe is still a vision.

Even though I argue that the government is still a key factor in regulation and could continue to influence business significantly. Nowadays, we recognize that the roles of business and government have increasingly become intertwined.

Besides government and business, we have to perceive also the growing importance of governmental bodies above the national level, usually called supranational or global level. These actors refer to organizations like the European Union, treaty systems such as The North American Free Trade Agreement (NAFTA), or supranational bodies like the G20. However, governmental organizations with a global scope like the United Nations (UN) or Organisation for Economic Co-operation and Development (OECD) still lack an efficient mechanism for sanctioning non-compliance with their regulation.⁵²² There are global standard rules. Some instances are *United Nations Guiding Principles on Business and Human Rights* (United Nations 2011),⁵²³ *United Nations Global Compact* (United

⁵²¹ Andrew Crane and Dirk Matten, *Business Ethics: Managing Corporate Citizenship and Sustainability in the Age of Globalization*, Fourth edition (Oxford, United Kingdom: Oxford University Press, 2016), 520-21.

⁵²² Andrew Crane and Dirk Matten, *Business Ethics: Managing Corporate Citizenship and Sustainability in the Age of Globalization*, 4th. edition (Oxford, United Kingdom: Oxford University Press, 2016), pp. 520-21.

⁵²³ See: UN, “Guiding Principles for Business and Human Rights: Implementing the United Nations ‘Protect, Respect and Remedy’ Framework UN Global Compact” (United Nation, 2011), <https://www.unglobalcompact.org/library/2>.

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Nations, 1999),⁵²⁴ *Agribusiness Rules* (World Bank, 2016),⁵²⁵ *International Organization for Standardization (ISO)*,^{526,527} *Deutscher Corporate Governance Kodex* (Germany),⁵²⁸ and King Report on Corporate Governance (South Africa, King IV, 2016).⁵²⁹

Measures:

In Indonesia, regulation by the state is needed to guarantee that companies carry out their compliance and voluntary standards. Even so, borrowing the word from the community in Papua, we are still hoping for a change of attitudes of the business actors in Indonesia. We need to be aware and believe that economics has a positive human side, and we hope and nurture this image. A rational actor maximizes its benefits, but rules try to prevent people from behaving immorally or selfishly. As written in chapter five, we are aware that the image of human beings is complex. However selfish a man may be, he is obviously naturally gifted to be interested in the fate of others. Smith calls it sympathy, which means the ability to put oneself in the other person's place. Unfortunately, this sympathy has been lost in many parts of the economy in recent decades. Emotions, intuition, culture have been repressed. Alexander Brink gives the example of the honorable merchant (*Ehrbarer Kaufmann*)⁵³⁰ as an alternative of *homo oeconomicus*, virtuous and respectable. For

⁵²⁴ See: UN, "Making Global Goals Local Business - UN Global Compact," United Nations Global Compact, accessed August 20, 2021, <https://www.unglobalcompact.org/sdgs>.

World Bank, "Enabling the Business of Agriculture 2019" (World Bank Group, October 21, 2019), <https://eba.worldbank.org/>.

⁵²⁵ World Bank, "Enabling the Business of Agriculture 2019" (World Bank Group, October 21, 2019), <https://eba.worldbank.org/>.

⁵²⁶ See: ISO, "ISO - About Us," ISO, accessed August 20, 2021, <https://www.iso.org/about-us.html>. Some examples of their standards are ISO 9001:2015: Quality Management System, ISO 14001:2015: Environmental Management System, ISO 45001: 2018: Occupational Health and Safety Management Systems.

⁵²⁷ Some examples of their standards are ISO 9001:2015: Quality Management System, ISO 14001:2015: Environmental Management System, ISO 45001: 2018: Occupational Health and Safety Management Systems.

⁵²⁸ See: Regierungskommission DCGK, "Deutscher Corporate Governance Kodex," 2021, <https://dcgk.de/en/code.html>.

⁵²⁹ IFC, *What We Learned about Corporate Governance and Code Development in Sub-Saharan Africa* (Washington DC: World Bank Group, 2018), p. 1.

⁵³⁰ Alexander, Brink, "Über Tugenden, Haltungen und Anreize: Experteninterview mit Prof. Dr. Dr. Alexander Brink und Anne Fries," in *Balanceakt Compliance: Recht und Gesetz ist nicht genug: ein interdisziplinärer Leitfaden für Entscheider*, ed. Dorette Segsneider and Niewiarra (Frankfurt am Main: Frankfurter Allgemeine Buch, 2016), pp. 117-19.

Ehrbarer Kaufmann from the Italian renaissance, Luca Pacioli wrote this good merchant in 1494.

successful trading, he had a strong interest in society and to secure social peace. In this modern society, the honorable merchant has found his way back into the companies by implementing Corporate Social Responsibility (CSR). We need to nurture this side, or in Adam Smith's language, the impartial spectator.

7.1.3. Bridging Embeddedness to the Society and Ecology

The economy depends on society and ecology and vice versa. They both need trust and reciprocity. The community is connected with norms, rules and relations. To ensure a healthy community, we need to build a robust civil society with strong social and political engagement and nurture a good relationship.

The palm oil industry has witnessed the industry's costs, environmental consequences, the inequality between societies, and cultural displacement, especially to the most marginalized groups of the society: indigenous people and smallholders. They suffered for a long time as second-class citizens. Local communities are burdened with the socio-economic and environmental costs of poorly planned and implemented development.

From the framework in palm oil industry, some issues relating to Indigenous People and Smallholders in Papua from the empirical research are identified as follows: (1) Land, (2) Food and Water, (3) House, (4) Health, (5) Education, (6) Culture, (7) Salary and Working Conditions, (8) Political Voice.

Forest for the indigenous people in Papua symbolizes a mother who breastfeeds the children. Forest is a source of living, a source for food and economy.

In some cases, the palm oil industry can be detrimental to local livelihoods because it has affected the shifting cultivation practices of local people. In Papua, in communities formerly relying on subsistence-based livelihoods, conflicts mainly occurred at the start-up phase of plantations due to the loss of indigenous land and lack of land compensation due to a weak land tenure system. The people usually work only as a daily labor.

Expansion onto forested land has caused the support source of the livelihoods of the local people. The aspiration to achieve food self-sufficiency has become one policy agenda of the Indonesian state and turn to agriculture as a progressive sector for development. The aims are noble, people have access to sufficient food at

affordable prices and raise domestic food production. Unfortunately, corporate agribusiness tends to be concentrated in export-oriented cash crops on large estates. One example is the Merauke Integrated Food and Energy Estate (MIFEE) in West Papua, which focused on sugar and oil palm and worsened small-scale farmers. Agricultural capitalism is strengthened. The political mobilization of social forces in support of family-owned businesses or smallholders needs to be reformed.

Forest is also a part of the culture and sacred life of the people. Indigenous People cannot be separated from culture. Culture has often not been taken into consideration in the economic conversation. The word culture is elastic; it can refer to groups or national systems, attitudes, religion, customs, daily behavior, lifestyle, and many other characteristics. Culture is a coherent system of values, attitudes, and institutions that influences individual and social behavior in all dimensions of human experiences.⁵³¹

Culture is a part of human dignity that must be preserved as the main component of personal and collective identity. It provides "purpose" to life and is thus essential for human dignity because the quality of life includes social and cultural experiences that determine personal and community well-being.⁵³²

The value of cultural diversity is related to indigenous people, whose traditional lifestyles provide a sustainable relationship to the environment. However, indigenous people usually seek something somewhat different: the ability to maintain specific conventional ways of life and beliefs while participating on their terms in the modern world.⁵³³ When we protect the forest, we protect the people and the future.

Political participation is the right of the people. Diakonia needs to do advocacy for the political rights of the indigenous people. Ensuring a voice for minorities, fairness in a decision-making procedure implies, amongst other things, that the

⁵³¹ Harrison, *Who Prospers*, p. 9.

⁵³² Ortwin Renn, "Sustainable Development: Exploring the Cross-Cultural Dimension," in *Global Sustainability: The Impact of Local Cultures: A New Perspective for Science and Engineering, Economics and Politics*, ed. Peter A. Wilderer, Edward D. Schroeder, and Horst Kopp (Weinheim: Wiley-VCH, 2005), p. 34.

⁵³³ Will Kymlicka and Wayne Norman, "Citizenship in Culturally Diverse Societies: Issues, Contexts, Concepts," in *Citizenship in Diverse Societies*, ed. Will Kymlicka and Wayne Norman (Oxford: Oxford Univ. Press, 2000), p. 20.

interests and perspectives of the minority be listened to and taken into account. Various groups remain seriously underrepresented in the legislative context, despite the absence of any legal restrictions on the political rights of their members.

Of course, the country's legal and political rights are of the utmost importance to achieve this goal.⁵³⁴ In addition, they may need protection from economic and political decisions; for example, they may need autonomy or veto power over certain language and cultural decisions, and they may need to restrict immigrants or the flow of immigrants to their home countries.⁵³⁵

Measures:

1. Enhancing local and national level governments to develop land-use planning will ensure that forests and other high-value biomes are effectively protected.
2. Involvement of local communities in managing forests and other high-value biomes and creating mechanisms for them to benefit from ecological perseverance directly. Strengthening community participation and using their traditional knowledge and innovations to achieve effective conservation efforts.
3. There is a need for a strong emphasis on addressing land degradation in international and national investment programs.
4. In finding a common ethical vocabulary, a cross-cultural dialogue should take place. Western powers cannot impose a single ethical perspective into society or the market. A room must be provided for the learning and interchange of different moral views.
5. Turning rainforests into agribusiness leads to soil damage, erosion and pollution, and further deforestation. Using the technical sustainable forms of land already practised by the indigenous people should be considered in agribusiness land use management.
6. In remote forested villages where communities had often relied on subsistence-based livelihoods, a substantial reduction in basic, physical and

⁵³⁴ Will Kymlicka, *Multicultural Citizenship: A Liberal Theory of Minority Rights* (Oxford: Clarendon Press, 2003), p.132.

⁵³⁵ Kymlicka, p. 126.

financial well-being was observed, along with reduced social and environmental well-being. Further expansion of palm oil in remote forested areas like Papua should therefore be considered more carefully. Confrontation with the market economy can lead to poverty and displacement of communities that are not well integrated into the market system. Given the right skills, strengths, and social context, alternative policies that could facilitate local communities in remote areas to thrive and prosper should be sought. In addition to the ongoing land conflicts that need to be recognized, the future problem is plasma smallholders or independent smallholders. The extent of smallholder participation depends on the interaction between smallholders and palm oil companies. In areas like Papua, where industrial producers are now beginning to operate, the potential for smallholders to be active in oil palm production is much lower. Smallholders can be limited by insufficient expertise, laborer, fertilizer, and other essential inputs in these areas. Ongoing empowerment of smallholders and the communities is crucial.

7.2. Institutional Level of Transformation of Global Diakonia

The development of palm oil should be aimed at serious and balanced attention to economic, social, cultural, and environmental aspects. The development which is more concerned with one aspect than other aspects will cause any other problems in the future. Therefore, strategic steps are needed at each level of engagement, from micro to global scopes.

The micro level's actor is the individual/personal or community on the local level. Meso level is dealing with an institution or organization. One example is how the business formulates its corporate ethic or corporate governance. The macro-level is broader because this level deals with society and the state. The state will determine the economic policies and ethics. Political governance will be found at this level. Global-level relates to global society. The vision is to formulate global or international economic ethics or formulate global governance or global policies.

Cooperation, coordination, and synergy among all stakeholders and related institutions are needed to develop a sustainable palm oil industry. Decisions about

the location of palm oil plantations are more determined by economics than environmental compatibility. Therefore, other aspects need to be taken into consideration in future decisions.

7.2.1. Widened Principles: Ethical Embedded Market Concept

Embedded Economics is one of the normative parts in doing diakonia to transform the palm oil industry in Indonesia. Diakonia, present in the public sphere, takes seriously the fact that society has become pluralistic. Nevertheless, it does not mean that diakonia cannot show where it comes from through biblical narratives and church traditions. To build cooperation with other groups, it is vital to use alternative language, such as human dignity, to reflect the creation of human beings in God's image. Without denying its basis in Christian faith reflecting the love of God, diakonia can acknowledge its values.

Even though in public life, the engagement between economy and theology is not easy. Theology and economics speak in different languages, using different concepts and contrasting modes of analysis, and focusing, to some extent, on quite different goals, priorities, and questions. Often these differences hinder fruitful engagement. We also admit that it is too easy for church leaders to pronounce economic matters without adequate grounding, and theologians initiate most of the conversations about theology and economics.⁵³⁶ We neglect that both sides need each other.

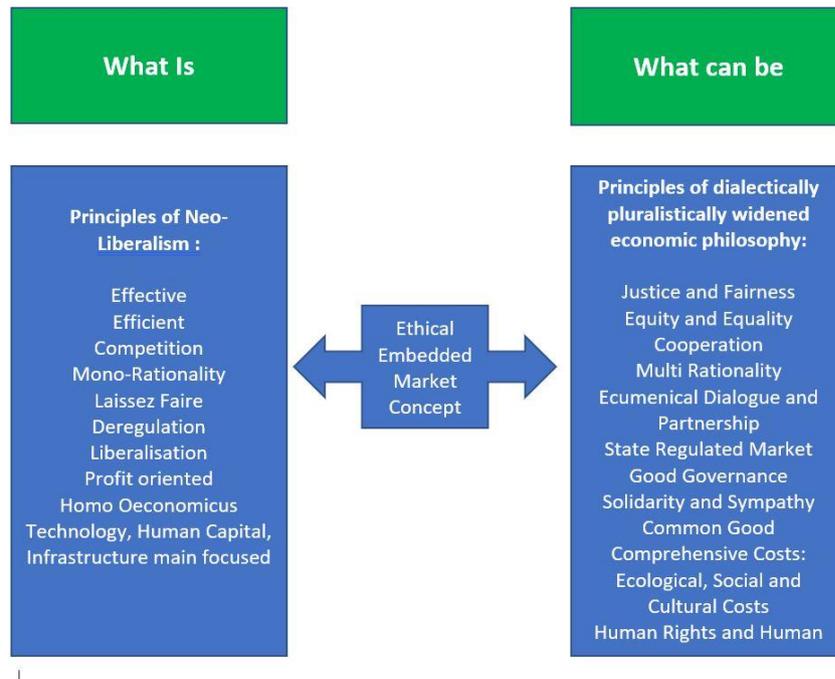
Economists need theologians and vice versa. Economists find it hard to see the bigger picture, especially some of the moral and spiritual flaws in contemporary economic life. One example is the purely materialistic criterion assessment like the growth of gross domestic product (GDP). Economists need to see the bigger picture and see what is happening in the world. Theologians need economists in their calling related to socio-economic context. They need the competencies of economists of how to understand and address the concerns.

⁵³⁶ James K. Smith and J. David Richardson, “Economists, Theologians, and Globalization: An Exchange,” *The Association of Christian Economists* 56 (2010), <http://christianeconomists.org/2010/12/28/faith-economics-fall-2010/>, pp. 14-18.

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The figure below shows the juxtaposition of economic neo-liberalism to embedded economic ethics, which become some basis of the go-between diakonia in its engagement with other groups.⁵³⁷

Figure 7-1. Widened Principles: Ethical Embedded Market Concept



Source: Author's Collaboration

The global neoliberal economic system has reduced solidarity. This is one major challenge of economic globalization since solidarity and justice are at the heart of any biblical and Christian ethic.

Though we are conscious that religions cannot remedy the earth's environmental, economic, political, and social problems, they can offer what manifestly cannot be attained by using monetary plans, political programs, or legal regulations alone: A change in the internal orientation, the mentality, the consciousness, the "hearts" of humans, and a conversion from a wrong direction to a new orientation for life.

⁵³⁷ See: Martin Büscher, *Marktwirtschaft und kontextuelle Ökonomie: wirtschaftsethische Grundlagen zur Weiterentwicklung der Ordnungspolitik* (Wiesbaden: Dt. Univ.-Verl, 2000), pp. 201-202. For a more comprehensive comparison between Wirtschaftsliberalismus und Pluralistischer Liberalismus.

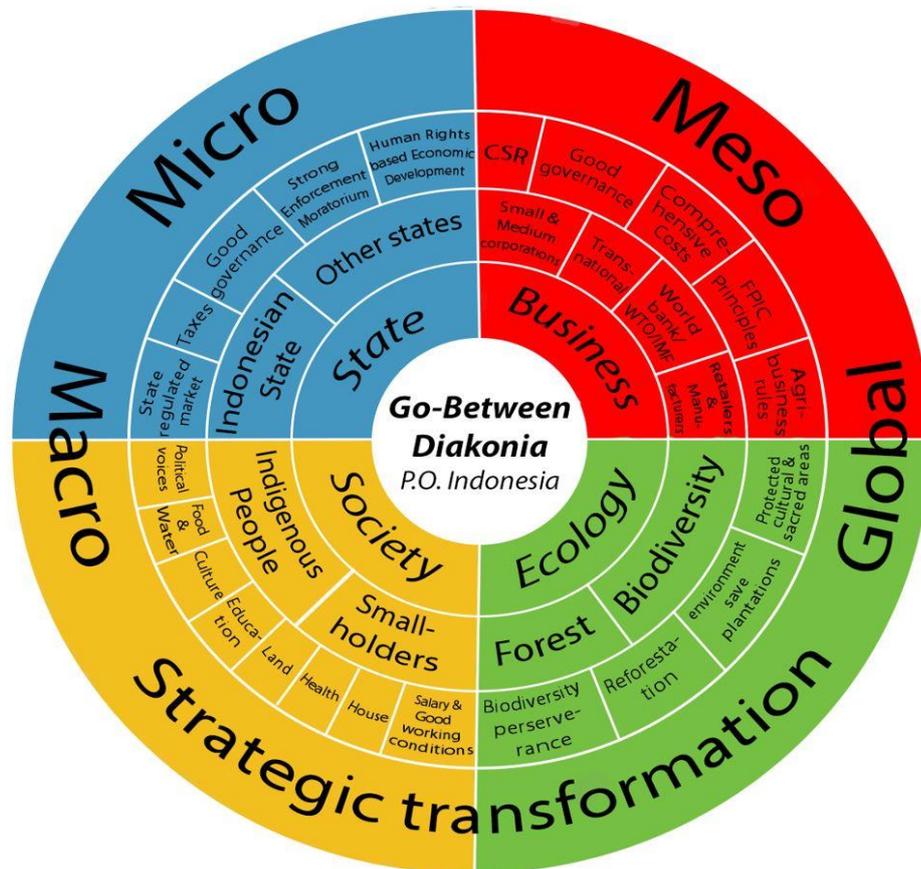
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Humankind urgently needs social and ecological reforms; however, it desires spiritual reform just as urgently.⁵³⁸

7.2.2. Areas of Transformation

Four areas of global diakonia in the palm oil industry in Indonesia are identified from the empirical observation and the works of literature throughout this dissertation. They are the State, Business, Society, and Ecology, as shown in Figure 7-2.

Figure 7- 2. The Areas of Transformation of Go-Between Diakonia in Palm Oil Industry in Indonesia



Source: Author's Collaboration

⁵³⁸ Peter Singer, *One World: The Ethics of Globalization*, 2nd. ed (New Haven: Yale Univ. Press, 2004), p. 238.

7.2.3. Stakeholders and Partners

According to the Saint Gallen management model, stakeholders are a group of people, organizations, or institutions, regardless of whether they are organized or not. They are all affected by the company's value-added activities and sometimes even value-destroying activities. It is not only the actors who make demands on the organization but also the broader actors from individuals, communities or organizations, who have participated in the creation of organizational value in some way and are affected by the organization's influence.⁵³⁹

There are five categories of stakeholders. They are the organizational relevant representatives of different environmental spheres and controversies.⁵⁴⁰

The first category comprises suppliers and customers. An organization is always both a customer to its suppliers and a supplier to its customers. They are involved in a dynamic network of actor relationships along with the network.

The second comprises investors or professional communities who provide significant financial and non-financial resources to an organization. Mobilizing these stakeholders is substantial to shape the environment as the landscape of possibilities. The suppliers, customers, and investors can be categorized in the economic area in the palm oil industry.

The third comprises government agencies and providers of public infrastructure services. In this group, research and educational institutions and expert communities are involved. The states, including Indonesia and other countries, are the target of stakeholders in global diakonia.

The fourth comprises social movements, mass media, and NGOs. These stakeholders formulate demands based on current events, concerns, and their agendas. They contribute to the political discourse. They have to become a partner of the church to communicate with other target actors and institutions. With these stakeholders, the church builds a solid network to work together.

⁵³⁹ Rüeegg-Stürm, *The New St. Gallen Management Model*, pp. 12-13.

⁵⁴⁰ Rüeegg-Stürm and Grand, *The St. Gallen Management Model: English Translation of the Fourth Generation of the German Text*, pp. 76-78.

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The last category comprises the population groups and the stakeholders directly and indirectly affected by organizational value creation, which cannot articulate and raise their concerns because they lack the necessary resources, skills, instruments, or rights. They are involved in the extraction of raw materials or disposal activities in the value creation chain. However, they have not been granted rights in the appropriate economic, political and cultural contexts. However, this also includes other groups of people, such as infants, the sick or disabled, future generations, animals, and plants. In the palm oil industry, they are the smallholders, indigenous people, and the forest.⁵⁴¹

To reach the aim towards sustainable palm oil industry, diakonia and the church cannot operate alone. The pluralistic world has offered us a pluralistic partnership as well. Table 7-2 shows an extended collaboration with various partners the church can cooperate.

Table 7-2. Pluralistic Partnership in Global Diakonia

Liberal Economic Partnership	Pluralistic Partnership: Palm Oil Sustainability Council
Economic Experts	Economic Experts: Corporations, Retailers, Manufacturers, World Bank, Finance Institutions, Asian Development Bank, Palm Oil Association in Indonesia (GAPKI)
Employer	Employer
Unions	Unions
	Communities, Smallholders, Laborers, Indigenous People and their organizations
	Organizations of the Common Good: Churches and Diakonia Institutions.
	Churches Organizations and Faith-based Organizations: Christian Conference of Asia (CCA), World Council of Churches, MISEREOR, Brot für die Welt, Diakonie Deutschland, Lutheran World Federation (LWF), ACT-Alliance, Vereinte Evangelische Mission (VEM), and other organizations.
	Women organizations and NGOs

⁵⁴¹ Ibid, pp. 76-78.

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	Consumer organizations
	Environmental organizations and NGOs
	Labour Organizations
	World Organizations: United Nations, OECD, USAID, WTO, ILO
	Ministry of Labor, Ministry of Economics, Ministry of Agriculture, Ministry of Agrarian Affairs and Spatial Planning, Ministry of Villages, Development of Underdeveloped Areas and Transmigration of the Republic of Indonesia, Ministry of Education Regional, Provincial, and National Government
	Academic Institution: University, School, Research and Development Agency

Source: Table adapted from Martin Büscher, Marktwirtschaft und kontextuelle Ökonomie: wirtschaftsethische Grundlagen zur Weiterentwicklung der Ordnungspolitik, p. 244.

The operative management will be present in this chapter, which will include these partners to work together to find solutions for a sustainable palm oil industry in Indonesia. The strategies that will be carried out are empowerment and advocacy.

7.3. Global Diakonia Strategies in Palm Oil Industry in Indonesia: Operative Management

Project Title: Sustainability of Palm Oil Industry in Indonesia: Empowering Poor and Marginalized Communities affected by Palm Oil Expansion and Industry in Papua and Advocacy Strategies

Project Location: Merauke, Papua Province, Indonesia

Project Period: 2022-2030 (8 years)

Project Holder: Communion of Churches in Indonesia (PGI)

Project Objectives:

1. Bridging embeddedness to sustainable palm oil industry in Indonesia, balancing social, economy, culture and ecology.
2. Indigenous Peoples, local community, oil palm smallholders, and laborers in oil palm expansion areas have access to relevant information about

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sustainable livelihood and can participate in decision-making processes affecting their life.

3. Indigenous Peoples, local community have the capacity to plan the development of their village, which enables them to participate in the decision on the use of their natural resources, land and forest.
4. Government, Private sector organizations, Corporations, and Financial Institutions are influenced to introduce and reform their policies and practices for the benefit of indigenous and local communities
5. The urban community, including the global society, are aware of the negative impacts of the operation of palm oil plantations
6. Institutional capacities of Communion of Churches in Indonesia (PGI) and competencies of its members in Papua: church workers and church leaders have been strengthened and improved.
7. Institutional Capacities and competencies of local government, local NGOs, and faith-based organizations in Merauke have been strengthened and improved

Strategic Processes

This project will be implemented within the structural frame of the Communion of Churches in Indonesia, later on will be written by PGI. PGI has two potential departments, namely Diakonia Department and Papua Unit. This project will take eight years to achieve the objectives. The area of the activity is in Merauke, Papua province. In the first year, the work will focus on empowering institutional and individual capacity and competencies of PGI workers, church workers, and church leaders. The second year, diakonia department and Development Participation Unit or Justice, Peace, and Integrity of Creation Unit are developed in the member churches of PGI in Papua, particularly in Merauke. The third-year is empowering and sustaining networks with reliable project partners at regional, national, and global levels. In the subsequent years, the empowerment of the community and advocacy works will be executed to achieve the aim to empower the indigenous people, smallholders, local community, laborers in the palm oil industry in Indonesia.

Operative Processes and Implementation

1. Empowering Institutional, Competencies and Capacity Building of PGI Workers, Church Workers, and Church Leaders.

In the first stage, PGI, in cooperation with Jakarta Theological College, Theological College in Papua, Universities in Papua, Institute of Diakonia Management Bethel, United Evangelical Mission (UEM), and World Council of Churches (WCC), Christian Conference of Asia (CCA), will train pastors during one year with the topics needed such as leadership, management, governance, economy, public theology, and diakonia. After the capacities of the church leaders and church workers are built, the Diakonia department and Development Participation Unit or Justice, Peace and Integrity of Creation Unit will be established in the member churches of PGI in Papua, particularly in Merauke.

2. Building, Empowering, and Sustaining Networks with Reliable Project Partners

- PGI will build networks with churches and diakonia institutions in Germany, to share knowledge and competencies of diakonia and other disciplines. The churches in Germany and the diakonia institutions can help PGI to execute the plans to help the people in Papua.
- PGI will encourage the Church Agencies particularly Brot für die Welt (BfDW), Misereor, Action by Churches Together (Act Alliance), to put palm oil advocacy and empowerment agenda in their programs and to partner with PGI.
- At the regional and national level, PGI will build networks with catholic churches and other denominations, including different religions, to gather strength to assist the marginalized caused by the palm oil industry.
- PGI will work together with civil society and NGOs at the local and global level to ensure the foreign investments, including MIFEE and palm oil, benefitted the community and not harm the people and ecology and build the global society awareness of the negative impacts of the palm oil industry.
- PGI will build networks with the Indonesian government at regional, provincial and national levels.

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- PGI will be partnering with sustainable palm oil companies, retailers and manufacturers, and reliable certification bodies.
- PGI will build a platform of global civil society partnership, or which may be called the global diakonia platform, to shape the awareness of global society to the issues happening around the palm oil industry in Indonesia and other diakonia issues.

3. Empowering the Community

This empowerment aims to ensure that the palm oil industry benefits the community and not harms the ecology. The crucial concepts are:

- Indigenous people, the local community, smallholders, and laborers have access to relevant information about the palm oil industry and their sustainable livelihood and can participate in the decision affecting their lives.
- They have the capacity to plan the development of their village, which enables them to participate in the decision on the use of their natural resources, including forest and land.

There are some issues to be taken into account in the area of transformation towards society and ecology. In the community: political voices, food and water, culture, education, land, health, salary, and good working condition. In the ecology: reforestation, biodiversity perseverance, protected cultural and sacred areas.

The planning strategies to be executed in the community empowerment framework are as follow:

a) *Socialization of the Community Empowerment*

PGI will cooperate with smallholder groups, laborers associations, local community, and indigenous people institutions. When these groups do not exist in Merauke, the first and foremost task is to organize them into their respective groups. Socialization will take place among these groups. During the socialization, PGI with the relevant partners will explain general information about the palm oil industry, its positive and negative impacts and collect insights and perspectives from the participants.

b) *Empowering Smallholders*

After the groups of oil palm smallholders have been formed, PGI, in collaboration with companies, retailers, and manufacturers, the ministry of agriculture, the ministry of economic plan, banks, and reliable certification bodies like Indonesian Sustainable Palm Oil (ISPO), Roundtable on Sustainable Palm Oil (RSPO), Sustainable Agriculture Network (SAN), will train the smallholders to implement a good farming system, comprehensive management system, market analysis to improve the productivity of their products and help them with sustainable certification to market their palm oil to the global market to get fair prices. To ensure the banks and other financial institutions' loans empowering smallholders, both independent and plasma farmers.

c) *Empowering Laborers*

Laborers need to get information about their rights as laborers in the palm oil plantation and their education and competency building. Regular working hours, fair wages, safe working, and living conditions should be the fundamental changes in the rules. PGI will cooperate with national labor organizations, labor ministry, and corporations. In palm oil plantations, the gender justice issue needs to be reevaluated. Women still face discrimination, without precise working hours and health insurance, and are vulnerable to their health risks. Women organization will become a partner to find the solution for this issue.

d) *Empowering Local Community and Indigenous People*

Acknowledging the different impacts of palm oil on the community could inform communities on the long-term risks and benefits of oil palm on their well-being. The palm oil industry's clear and transparent socialization to the community will hinder future conflicts, including land transfer, prices, and agreements. PGI with church workers, government, companies, and NGOs will educate marginalized communities about their crucial role and importance to the economy and appraise citizens of their rights as beneficiaries of economic development, particularly in the palm oil industry. Some activities will be put into practice to empower local community and indigenous people. The practices are as follows:

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- PGI organizes discussions and lobbies with several vital sources to understand the impact of oil palm plantations and educate the community to understand the consequences.
- Educating the community to develop a strategic development strategy, creating a draft of their village regulations on land use, and spatial mapping their customary areas. For example, to map the areas that will be designated for social forestry and agrarian reform.
- Training the community about advocacy and documented cases in their regions. Correspondingly, educating the community on conflict resolution through mediation, facilitation, and negotiation as an alternative solution to get their land back.
- Assisting the community to find potential alternative resources besides palm oil, particularly to train women for income-generating alternatives.
- Increasing the knowledge and capacity of indigenous people to protect their sacred areas and their traditions or culture that have existed through generations. Assisting them to push for a policy on the protection of indigenous people in Indonesia.
- Advocacy training on the licensing mechanism of palm oil plantation and fighting for the rights of the economy, society, and culture.
- Empowering the community about their civil freedom and rights under the law to ultimately participate in the development, including the decision-making process to welcome investments.

The method used is participatory. In-depth discussion and direct observation of the changes that the community is experiencing will become the primary basis for the evaluation of this project and the monitoring process, besides professional external evaluator.

4. Doing Advocacy

The activities regarding advocacy which will be conducted in this project are through the campaign, lobby, dialogue, press conference, meeting, recommendation and resolution statement, media statement.

a) *Advocacy towards Indonesian Government*

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- Meeting and dialogue with Merauke government about land acquisition, certification principles, Free, Prior and Informed Consent (FPIC) principles, spatial planning, and moratorium.
- A comprehensive National Campaign that raises awareness about governance, justice, equality, and the common good pushes for national policies to influence good governance in the palm oil industry.
- Encouraging the government for public leadership and governance to expand competencies and sensibilities for ethics, social justice, common good, and fiscal responsibility. Formulating a more pro-people policy.
- Advocacy for an equal redistribution of revenues from palm oil among provinces and regional levels, monitoring the correct allocation of the funds, and preventing corruption.
- Advocacy to Indonesian government commitment to agrarian reform and social forestry. Agrarian reform includes land conflict resolution and Land Cultivation Rights (*Hak Guna Usaha*). Furthermore, to establish the protection and management of peat protection and restoration.
- Dialogue to the Indonesian Government to evaluate and monitor the practice of Corporate Social Responsibility (CSR) of the corporations in the palm oil industry.

b) Advocacy towards the Corporations

- Dialogue with the Indonesian Palm Oil Association (GAPKI) to bring out the marginalized people's voices to set palm oil sustainability criteria in Indonesia.
- Dialogue with business to formulate specific contextual palm oil Corporate Social Responsibility (CSR) in Indonesia and implement them into practice.
- Campaign for an Ecumenical Regional Green Investors to appreciate the sustainable green investment and call for responsibility of Christian business actors.
- National Forum of Churches/Diakonia Institutions with NGOs and Civil Society particularly relating the palm oil industry issues to build

awareness to business to not violating human rights but bring common good to the people.

c) *Advocacy towards Global Institution and Global Financial Bodies*

- PGI give inputs to the relevant European Union (EU) Parliament regarding their policies and developments plans
- Dialogue to the Asian Development Bank addressing land degradation, particularly in the palm oil industry, especially in the international and national investment programs, because the players in this issue are mostly the agribusiness industry and transnational corporations.
- Campaign to economic reformation towards international financial organizations, like World Trade Organization (WTO), World Bank, International Monetary Fund (IMF), to place the environmental and human rights concerns ahead of economic considerations. These organizations should be effective and responsive to people's sovereignty affected by their financial assistance and investment. Monetary policy design must take account of ecological, socio-economic, and cultural aspects.
- Ecumenical dialogue with leaders and businesses actors to transform the current Free Market system and establish Ecumenical Global Green Investor.
- Dialogue to global institutions and bilateral donor agencies such as the World Bank, International Monetary Fund (IMF) or United Nations (UN) to provide technical and financial support to the states to preserve their development potential, especially those that economics have the most substantial impact on the natural environment. Furthermore, the United Nations might impose sanctions on countries that do not participate in sustainable development agenda.
- Lobby to United Nations (UN), European Union (EU), and other international bodies to share the burden of environmental and social problems. Moreover, to adopt an internationally legally binding instrument to hold corporations accountable for their behavior, especially concerning human rights and access to natural resources. Particularly in the palm oil industry.

Chapter 8

Conclusion: The Church and Embedded Economics

8.1. Outlook: Church is Key Actor in Palm Oil Industry

Palm oil plantation in Indonesia has journeyed with the people for more than three decades. Bitter and sweet stories are chronicled along with the expansion across the archipelago. As it happens, not the palm oil plant is the main problem, but the system, the social relations that lie in the heart of its production.

The communities, landowners, indigenous people, laborers, smallholders struggle for land rights, unfair practices, and economic inequality, yet they are still hoping this industry will bring welfare to society. Particularly in the terms of economic and development. To transform this ugly face of the Indonesian palm oil industry, the people's struggle and hope in the contested socio-ecological palm oil landscape have to be the starting point. Any sustainable future for palm oil must be an attempt to change the structures and the principles.

The church is one of the important actors in this industry and its global market. One of its vital roles is to give critical voices to transform the neoliberal market system, to bring embeddedness to economics as the counterpart for the current economic principle, and helping the marginalized.

The church's responsibility for economic justice characterizes diakonia as the integral part of church life and its integrity. The church cannot act alone to succeed in its mission to fight for justice and restore human dignity. The church should network with other civil society groups to hold the government accountable to the people. It will bridge the society, business, and the state. In the palm oil context in Indonesia, the church will provide insights to the Indonesian government on the importance of human rights and ecology in the decision-making and national economic development plan and policies. Moreover, the church can contribute to the dialogue between theology and economy. It encourages the business to be responsible, assisting the marginalized people and putting the ecology as their concern.

Go-between diakonia widened the public diakonia into the global level and confirmed that diakonia is not only to help the victim but also to prevent the suffering and injustices experienced by the people

8.2. Potential Future Research: Multirationality in the Reality of the Palm Oil Industry

The complexity of organizations caused by globalization and digitalization demands that we live in a pluralistic world with different multirationality. These differences force us to adapt to the new world and its needs. This condition reaches diakonia institutions as well. In this dissertation, this multirationality is evident along the global chain of the palm oil industry. Various actors around the globe take part in this industry. The decision cannot be taken merely by economic actors. The community, other organizations, government at all levels should play their part. Conflicts are unavoidable. Therefore, leadership, communication, conflict resolution, or mediation competencies have to be reinforced. These are four keys of practices of dealing with multirationality.⁵⁴²

	Polarisation	Support
Explicit Practices	Conflict, Competition, Rejection between Rationalities	Making Multirationality Fruitful or Productive
	Avoidance	Tolerance
Implicit Practices	Implicit Dominance of a Rationality	Implicit Mediation between Rationalities
	Monorational	Multirational

The concept from this study, diakonia bridging the state, business and society, can be analysed with the four key practices above. Future research may explore experiences by the concept of polarisation, support, avoidance, and tolerance within the palm oil industry, in tandem with the ecclesiological concept and its affairs, particularly in Indonesia, together with competencies that need to be developed.

⁵⁴² See the source in Chapter 7

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Appendices

Appendix 1. Interview Questions for Communities

Perception about palm oil industry and their effects

1. What is your perception of this palm oil industry. In which areas do you get benefits and why? In which areas do you not gain anything, and why?
2. How is your life-changing after the coming of this palm oil in your area? Regarding:
 - a. Economy
 - b. Social
 - c. Culture
 - d. Ecology
3. What is your expectation for the future and your next generation or descendants?
4. What can you do as a community for a better life in the present and future?

Perception about Corporation

1. How do you think about the presence of the corporations? Their practices in this industry. Which practices should be evaluated because it is unethical according to your perceptions. Furthermore, how to overcome them?
2. How do you know so far about their CSR? Do you think it is enough? What should they do more to society?
3. How do you see the roles and responsibilities of the corporation?

Perception about government

1. How do you see the roles of the government in this industry? To which sides do they stand? What is their responsibility?
2. What is your suggestion and your expectation for the government?

Perception about Churches and NGO

1. How do you see the roles and involvement of the NGO? What do you expect from them?
2. How do you see the roles and involvement of Churches? What do you expect from them?

Appendix 2. Interview Questions for Church Workers

(Questions for NGO will be adjusted)

Perception of Palm Oil Industry

1. What is your perception about the presence of the palm oil industry in Merauke and general in Indonesia? Who are the beneficiaries, and who are the losers?
2. What is now our biggest challenge regarding this Palm oil issue? How to overcome them?
What is our homework now?

Perception of Corporation and Sustainability

3. I see there are many corporations in Merauke.
How do you think about the presence of the corporations? Their practices in this industry. Which practices should be evaluated because it is unethical according to your perception. Moreover, how to overcome them?
4. How do you know so far about their CSR? Do you think it is enough? What should they do more to society?
5. What do you understand about the sustainability of the palm oil industry? Is it possible to fulfill and how? Is certification enough?
6. Do you know any corporation that has been successful concerning sustainability practices in this sector?
7. What do you understand about sustainable development goals? Can we use it as a platform for Palm oil sustainability?

Perception of Government

8. How do you see the roles of the government in this industry? To which sides do they standing? What are your suggestion and your expectation of the government?
9. Any specific policies to be evaluated concerning palm oil proliferation?

Perception of Diakonia/Caritas

10. At what Level should Diakonia/Caritas show its strength in its engagement? In which part regarding this issue: Economy, Social and Empowerment, Politic and Advocacy, Ethik. And why? Please add any concern
11. What do you think of the word global Diakonia? How do people Interpret this?
12. How do you think the involvement of diakonia/international church agencies in this issue. At which level are they working, and what do you expect from them?
13. Why do you think the church should engage in this issue? Why church not only social work/NGO? What differences/alternatives can we bring? What competencies should we have?
14. In Indonesia, what is the most difficult hindrances to us to acts in this matter and how to overcome them?
15. How should be our public voices towards government, corporations, and communities?

Appendix 3. Interview Questions for Government

Perception of Palm Oil

1. What is your perception of this Palm oil industry in Indonesia. In which areas do communities and Indonesia get benefits and why? In which areas do communities and Indonesia not gain and why?
2. What is now our biggest challenge regarding this Palm oil issue? How to overcome them?

Perception of Corporation

1. How do you think about the presence of the corporations? Their practices in this industry. Which practices should be evaluated because it is unethical according to your perception. Furthermore, how to overcome them?
2. How do you know so far about their CSR? Do you think it is enough? What should they do more to society?
3. What criteria for investors to be accepted to get a permit in this sector? How is the process of the permit to be issued?

Perception of Sustainability

1. How do you think about the Moratorium? Is it well implemented in the field? If not, what is the hindrance?
2. How is your perception of the international level engagement? For example, EU, UN, and other countries? What is your expectation?
3. Regarding many negative campaigns about Palm oil from the international world, how is your perception?
4. What do you understand about the sustainability of the palm oil industry? Is it possible to fulfill and how?
5. Do you find any policies regarding palm oil (sustainability) that should be evaluated? Do you see gaps between policies and practices?
6. How is the platform of sustainability according to the Indonesian government, and do you also use sustainable development goals from the UN as a platform?

Perception of Government

1. What is your responsibility as a government?
2. How do you see the roles of you as the government in this industry? What do you think people expect from you?
3. Who are your stakeholders?

Perception of NGOs and Churches?

1. How do you see the roles and involvement of the NGO? What do you expect from them?
2. How do you see the roles and involvement of Churches? What do you expect from them?

Appendix 4. Letter of Approval for Conducting Empirical Research



Kirchliche Hochschule
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26.03.2019

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To whom it may concern

Letter of Approval and Endorsement Rev. Jenny Rossy Purba, MA, PhD-Student IDM

This is to confirm from my side as academic supervisor to support Rev. Jenny Purba regarding her empirical and interview plans in the PhD Project entitled

*“Global Diakonia and Palm Oil Proliferation in Indonesia
Critical Analysis of Sustainability Policies and Practices in Palm Oil Industry in Indonesia”*

Rev. Jenny Rossy Purba, MA is a very promising PhD-candidate. With IDM, she is also working as a Course Counsellor for the International Master of Art Diaconic Management (IMADM). We support her research wholeheartedly. The interdisciplinary thesis is accompanied by Prof. Dr. theol. Thorsten Moos, Prof. Dr. theol. Dieter Becker and myself as main supervisor.

We believe her research can contribute substantially to enriching churches public engagement in economic and business processes. In her master thesis that has been awarded an academic prize she started to lay rounds for this engagement.

Cordially yours

A handwritten signature in blue ink, appearing to read 'M. Büscher', is written over a light blue horizontal line.

Prof. Dr. rer.pol. Martin Büscher

Versicherung

Ich, _____
Name Vorname

versichere durch meine eigenhändige Unterschrift, dass ich die vorliegende Arbeit selbständig und ohne fremde Hilfe angefertigt und alle Stellen, die wörtlich, annähernd wörtlich oder sinngemäß aus Veröffentlichungen entnommen sind, als solche deutlich kenntlich gemacht und mich keiner anderen Literatur oder sonstigen Hilfsmittel bedient habe. Die Versicherung bezieht sich auch auf in die Arbeit integrierte Zeichnungen, Skizzen, bildhafte Darstellungen und dergleichen.

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Eigenhändige Unterschrift

Erklärung

Hiermit erkläre ich, dass ich bisher in kein Promotionsverfahren involviert war und dass die vorgelegte Dissertation keiner anderen Hochschule vorgelegen hat.

Ort, Datum

Eigenhändige Unterschrift