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India's Strategy in Reducing Palm Oil Import and Its Impacts to Bilateral Trade with Indonesia

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ABSTRACT

This article tries to analyze the strategy of Indian government in reducing its trade deficit through the import reduction of several main commodities including the palm oil. This research also seeks the impacts of the palm oil reduction in India towards India-Indonesia bilateral trade, as Indonesia is one of India's main trade partners and largest exporter of palm oil to India. This research used literature study within content analysis to find the bilateral trade between India and Indonesia, also the impacts of India palm oil import's reduction. The main data of research are secondary data from trusted and reputable news relating India palm oil imports from Indonesia. The result of study found that Indonesia needs to pursue efforts of trade diplomacy effectively so that the Indian strategy to cut imports will not be too impactful to the performance of its exports to India. This research enriches literature study about bilateral trade especially in India-Indonesia palm oil context. In practical implication, this research bring any recommendation to related stakeholder about bilateral trade strategy taken by Indonesian government.

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Introduction

With the population of 1.4 billion, India is the second most populous country in the world after China. Having a total area of 3.28 million square kilometers and a coastline of 7,500 km, it is the world's seventh largest country in terms of land size. With its geographical condition of mostly mountainous areas, it relies on an economy based on agriculture and natural resources to generate its economic growth. The Food and Agriculture Organization (FAO) of the United Nations (UN) reported that India is the world's largest producer of milk and nuts. Besides the two commodities, India is also the world's largest producer

of rice, wheat, sugarcane, peanuts, vegetables, fruits, and cotton. Several other commodities as parts of India's natural resources include herbs and spices, fishes, poultries, and several plantation commodities (FAO in India: 2023).

India is the world's seventh largest economy based on the value of its GDP (gross domestic product). But due to its huge number of populations, its per capita income is very low at USD2,225 or each of its people only get a monthly income at the average of US\$185.4 or around Rp 2.89 million in 2021. It is still lower than the per capita income of Indonesia at USD4,333 or around USD361 (Rp5.6 million) per month. Despite being the world's seventh largest economy, 80% of India's population are categorized as poor people. Without any significant breakthrough of economic policy, it will be very difficult for India to get out of the developing country category. The large population burden and sub-optimal utilization of economic resources have kept India bogged down in the middle-income trap. During the last one decade, India has always recorded deficits in its trade balance. India purchased goods from abroad in higher quantity than the goods it sells. The consistent deficit of its trade balance poses a challenge for the Indian government. There is no way for India to increase economic growth and per capita income, but to improve its performance of exports and reduce its reliance on imports.

One of the imported goods that will be reduced by India is the palm oil. India purchases palm oil from Indonesia and Malaysia. Initially, India bought more palm oil products from Malaysia than from Indonesia. But then due to the diplomatic conflict triggered by a comment from Malaysia regarding the Kashmir issue, India purchased more palm oil from Indonesia. Therefore, India's economic policy to start reducing imports of palm oil by developing its own oil palm plantations will become a bilateral trade challenge for Indonesia. India seems to realize that international trade will be the main contributor to its long-term economic growth. Some previous research suggests that the strong international trade especially in term of export performance are the key to gain country stronger economic growth. On the other hand, when a country experiencing deficit international trade which is value of import is higher than export, economic growth tends to slower.

The role of foreign trade in economic development needs no emphasis. Trade can stimulate growth if exports tend to increase faster than imports or be a brake on growth if imports tend to increase faster than exports, except in case of higher proportion of capital goods imports (Samuelson, 2001). There are two versions regarding the role of foreign trade in economic development and the type of trade strategy which has to be followed by the countries for their development. The first version, which believes that the "trade as an engine of growth" is the strategy of export-led growth also called as outward-oriented strategy. The second treats "trade as hand maiden of growth", is inward-oriented strategy or the strategy of import substitution. There has been extensive discussion in the literature on their relative merits. Historical validation has revealed that countries with largest volumes of international trade and greater integration with outside world tend to be more productive than countries which are only dependent on domestic market (Raghuramapatruni & Chaitanya, 2020).

This article will analyze several steps and strategies taken by India to reduce its reliance on imported goods, especially palm oil. This research would answer the question about what are the impacts of India's steps to reduce import of palm oil to the bilateral trade balance between Indonesia and India? And what are the anticipation and diplomatic strategy taken by the Indonesian government to minimize the negative impacts caused by the India's reduction of palm oil import.

Literature Review

India's trade balance

One of the indicators of the economic performance of a country is its trade balance. The Balance of Trade (BOT) is the difference between the monetary value of imports and exports of a country during certain period. Positive trade balance shows trade surplus, while negative trade balance shows trade deficit. The BOT is an important component in determining the current account of a country (Corporate Finance Institute, 2022). The balance of trade records a surplus when export value is higher than import value. Conversely, the trade balance records deficit when import value is higher than export value. Although experts differ on the concept of trade balance that deficit of trade balance is not bad for a country, but its surplus of trade balance shows its economic strength in earning foreign exchange from exports that will then increase its foreign exchange reserve, maintain its currency exchange rates, and strengthen the government budget.

When a country's imports higher than its exports, then the country will be seen as "a loser in foreign trade". And all big countries, except Russia and the USA, stated they suffered huge losses by importing more than exporting (Bullock, 1901). India's trade balance has consistently recorded deficit during the last two decades (2001-2021). The deficit has even increased from year to year. In 2001, the deficit of India's trade balance was USD4.2 billion. Then it rose consistently every year from USD 12.6 billion (2004), USD 29.9 billion (2006), USD 74.6 billion (2010), and surged to highest level at USD 101.6 billion (2018). In 2021, the trade balance deficit of India reached USD 65.1 billion (India Trade Balance 1960-2023, n.d.). What is the profile of India's exports and imports? Having a strategic location in South Asia and adjacent to its trade partners who also have big populations like China and Pakistan, the total value of India's international trade reached USD 394.8 billion in 2021. It was an increase of 33.4% since 2017 and an acceleration of 43.3% from 2020 to 2021.

India's biggest export product based on value in 2021 was refined petroleum, diamond, medicines in dosage mix, jewelry, and rice. Aggregately, the main exports account for nearly a third (29.4%) of the total export income of India. Those commodities show that India's exported goods are relatively diversified. India ranks among the world's top countries that export diamond, jewelry and refined petroleum. The most recent data available shows that 53.9% of products exported from India are purchased by importers in: the USA (18.1% of total India's exports), United Arab Emirate (6.4%), mainland China (5.8%), Bangladesh (3.6%), Hong Kong (2.9%), Singapore (2.7%), Britain (2.6%), Netherlands (also 2.6%), Germany (2.4%), Nepal (2.3%), Belgium (also 2.3%) and Saudi Arabia (2.1%). From continental perspective, 45.6% of India's exports based on value are sent to other Asian countries, while 20.1% sold to importers in North America. India sent the other 19.2% of its exported goods to Europe. The other smaller percentages go to Africa (9.6%), Latin America that excludes Mexico but includes Caribia (3.6%) and to Oceania that led by Australia (1.9%). Considering India's population at 1.4 billion, the total products exported in 2021 at the value of USD 394.8 billion means around USD300 for each people in the South Asian country. The dollar metric shows a significant increase from the average of \$200 per capita in 2020 (Workman, 2022).

Meanwhile, from the side of imports, total of India's imported goods in 2021 reached USD 570.4 billion or an increase of 28.5% since 2017 and an increase of 55% from 2020 to 2021. Around 60.6% of India's imports came from Asian countries. Meanwhile, Europe contributes 16%, North America 8.5%, and Africa 7.8%. The other smaller amounts came from Latin America (3.5%) and Oceania (2.8%) that is mostly from Australia. With its population of 1.4 billion, India's import transactions that reached USD 570.4 billion is equal to the spending of its each people at USD 410 per year. Following are 10 main commodities imported by India, namely mineral fuels at the value of USD170.4 billion (29.9% of total imports),

gemstones and precious metals at USD88.3 billion (15.5%), machines and electrical tools at USD56.7 billion (9.9%), various kinds of machines that include computers at USD48.4 billion (8.5%), organic chemicals USD27.2 billion (4.8%), plastics and plastic articles at USD19.3 billion (3.4%), vegetable and animal oils USD17.5 billion (3.1%), iron and steel at USD11.7 billion (2%), medical and optical equipment USD11.3 billion (2%), inorganic chemicals USD9.6 billion (1.7%) (Workman, 2022). Based on the above data of India's trade balance, two conclusions can be made: First, Asian countries are the main suppliers of imported goods to India, and second, a part of India's imports of vegetable and animal oils came from Indonesia in the forms of CPO (Crude Palm Oil) and other derivative products.

Methodology

This research used literature study within content analysis. Content analysis is a research tool used to determine the presence of certain words, themes, or concept within some given qualitative data and support by available quantitative data. The method is also quite adaptable in that it can be either theoretically or empirically motivated (Stemler: 2015). Additionally, content analysis provides an empirical basis for monitoring shifts in public opinion (Stemler:2000). Each of these investigations demonstrates the linguistic content analysis's potential for use in both descriptive and predictive contexts. In this research context, content analysis is functioning to analyze the strategy of India to reduce import and its impact to the bilateral trade with Indonesia from the perspective of both India and Indonesia.

Results and Discussion

Trade balance of India - Indonesia

In the modern economic world, trade between countries or international trade is increasingly playing an important role in the global economy. Interdependence between one country and another is getting stronger. The concern of the countries in adopting their international trade policies are how they can obtain optimum benefits in international trade with limited economic resources.

Adam Smith in *The Wealth of Nation* said that the welfare of the state will be increased when international trade are carried out in a free market and the government intervention are also limited. This is the origin of the absolute advantage theory which is based on assumptions that countries have a real absolute advantage over trading partner countries by producing certain main goods or commodities and export these goods to the partner countries that do not have an absolute advantage (absolute disadvantage) and vice versa. Therefore, in a free trade system based on this theory, the value of the export and import are equal by doing international or bilateral trade with partner country. Meanwhile, resources are used more efficiently in order to achieve more optimal benefits or welfare (Sood, 2023).

In the absolute advantage theory, countries will focus in producing commodities that they have an absolute advantage compared to the partner countries. This theory is confronted with the theory of comparative advantage. In the comparative advantages, commodities that are produced and traded in the international market are depend on the ability of a country to produce those commodities on a relatively lower cost. Comparative advantage are the ability of a country to produce certain goods or services at lower opportunity cost compared to trading partner countries. In the context of international trade, comparative advantage refers to products that a country can produce more cheaply and more easily than other countries (Hayes, 2023).

A country that imports more goods and services than it exports in terms of value has a trade deficit or a negative trade balance. Conversely, a country that exports more goods and services than it imports has a trade surplus or a positive trade balance. A positive balance of trade indicates that a country's producers have an active foreign market. After producing enough goods to satisfy local demand, there is

enough demand from customers abroad to keep local producers busy. A negative balance of trade means that currency flows outwards to pay for exports, indicating that the country may be overly reliant on foreign goods (Kenton, 2023).

Trading between India and Indonesia has been continually rising during the last five years. But in 2020 it saw a decrease due to the outbreak of Covid-19 pandemic. Then trade transactions between the two countries surged during 2021 and 2022. Despite the fact that the trade transactions of India with Indonesia was only around 5.3% of India's global trade value, but the rising trend of their transactions has reflected a growingly strong condition of bilateral economic relationship between the two countries. Indonesia is the world's largest producer and exporter of palm oil and India is its second largest importer of palm oil after China.

Considering that the palm oil is the largest contributor of foreign exchange, the palm oil is a very strategic commodity for Indonesia. India is the main export market for Indonesia and, therefore, its market sustainability should be maintained, and if possible the export value to India can be continually increased. But from the perspective of India, its deficit of trade balance that is continually rising has pushed India to prepare a trade strategy to reduce its reliance on imports, including the import of palm oil. Like the trade balance of India as a whole, India's trade balance with Indonesia has been also consistent in deficit. Total transactions of the two countries's bilateral trade in 2021 reached USD21.01 billion or an increase of 48.5% compared to their transactions in 2020 at USD14.15 billion. Of the total trading value, oil-gas transactions amounted to USD1.1 billion and non-oil-gas reached USD19.89 billion. On transactions during 2020 and 2021, Indonesia recorded surplus at USD6.6 billion and USD5.67 billion respectively (Perdagangan, n.d.).

Following is the list of top five commodities exported by Indonesia to India. The list is designed from transactions of the highest values. First, mineral fuel, mineral oil and distillation products. On the first list, Indonesia exported in high quantity the fuel mineral, oil mineral and distillation products. In the trademap classification, the mineral fuel, mineral oil and their distillation products included in the category of HS product with the code of 27. The products are the kind of exported goods categorized together with bitumen and minerals. In 2020, Indonesia exported goods in the value of USD3.66 billion. The export values of mineral fuel, mineral oil and distillation products were lower than those reached in 2019 at USD5.02 billion. Second, fats and vegetable oils or oils and derivative products. Included in the code HS 15, the fats and vegetable oils or oils and derivative products are exported products that are categorized together with the edible fats. Under the second category, Indonesia exported USD3.06 billion in value. Most of this category are crude palm oil (CPO) and derivative products. Third, other chemical products. In this category, Indonesia exported USD335.19 million in value. Other miscellaneous chemical products exported to India are in fourth place. Fourth, iron and steel. Indonesia exported iron and steel to India at the value of around USD312.76 million in 2020. The export value of these products to India was lower than that of the previous period at US\$777.43 million. The export of iron and steel to India was on the fifth place. Fifth, ores, slag, and ash which is included in the category of products with the code of HS 26. Indonesia exported these products to India at the value of USD289.9 million in 2020 (Darmawan, 2022).

Economic cooperation between India and Indonesia has been started since long time ago, exactly in 1951, after the two countries gained their independence. There is a strong cultural linkage between the two countries, which was particularly strengthened by the two countries' actions to join the Non-Aligned Movement as the first member states in 1955. In 2011, India and Indonesia signed a bilateral trade agreement, which has doubled the trading value of the two countries during the last five years. India is the fifth largest country for Indonesia's export destinations. Indonesia is the second largest trading partner of India among ASEAN member countries. India has also established cooperation to increase trading value

with ASEAN member countries, including Indonesia. Concerning its bilateral trade with Indonesia, India has paid attention to its big deficit of trade balance from year to year. India has wanted to increase export value to Indonesia through the products of agriculture and livestock, such as wheat, rice, and beef, and products of pharmacy and manufacturing. The two countries have targeted to increase their bilateral trading value to USD50 billion during the next five years.

India Palm Oil Imports from Indonesia

India is the second largest market of Indonesia's palm oil, after China. Indonesia's total palm oil exports to India in 2021 reached USD3.4 billion or an increase of around 25% from the total exports of Indonesia to India. The palm oil's export value is predicted to continually increase because the demand of India for the palm oil will rise as supply of other vegetable oils, especially rapeseed and sunflower, is not yet normal. After visiting India, Indonesia's Trade Minister Zulkifli Hasan reported the commitment of India's businessmen to raise their purchase of palm oil from Indonesia. The additional purchase of India is estimated to reach 2.6 million tons with the value of USD3.16 billion. If the commitment realized, India will replace the position of China as the main export destination of palm oil from Indonesia.

Based on data from Statistics Indonesia (BPS), during the period of January-July 2022, Indonesia has made the biggest exports of CPO and derivative products to India at 1.45 million tons with the value of USD2 billion or Rp30.5 trillion (Rp15,225/USD). But the value dropped by 1.73% if compared to that of the same period in 2021. Meanwhile, during 2021, India imported 3.0 million tons of CPO from Indonesia at the value of USD3.28 billion or equal to Rp48.4 trillion. Before strengthening palm oil trade commitment and cooperation with Indonesia, India had purchased more palm oil from Malaysia due to lower export tax that made palm oil price from Malaysia lower than that from Indonesia. But then diplomatic relations between India and Malaysia became strained following the comments from Malaysia regarding the issue of Kashmir that had made India inconvenience and diverted its palm oil purchase to Indonesia. Although it has benefited Indonesia, but actually Indonesia also has its own strategy of trade diplomacy in short term, medium term and long term (Annur, 2021).

Despite now being the second largest export destination for Indonesian palm oil, in 2020 India overtook China as the largest export destination. The Trade Map report shows that the market share of Indonesian palm oil products to India is the largest in 2020. Its value reached USD2.98 billion or Rp42.45 trillion (Rp 14,246/USD). The volume of Indonesia's palm oil exports to India was also the biggest in 2020 at a total of 4.56 million tons. Meanwhile, the export value of Indonesian palm oil to China reached USD2.49 billion in 2020, which was the second biggest, and the volume of Indonesia's palm oil exports to China reached 3.87 million tons. Before Covid-19 pandemic, Indian market was very significant and very dynamic. The dynamic market of India is more caused by the trade competition between Indonesia and Malaysia in seizing the Indian market. Malaysia applies more lenient policy and lower export tax, while Indonesia applies higher export tax.

There are two components of tax applied by the Indonesian government for exports of CPO and derivative products. First, export tax as the source of tax income for the government and included into the state budget (APBN). Second, export levy (CPO fund) which is managed by a government institution under the finance ministry, namely the oil palm plantation fund management board (BPDPKS). This export levy is returned to the palm oil industry for financing mandatory biodiesel program, replanting smallholders' plantations, research and development, and positive campaigns of palm oil. Both export tax and export levy are applied based on progressive tariff. It is due to the export tax and export levy that has caused the

expensive price of CPO and derivative products from Indonesia. Therefore, several country destinations of Indonesian palm oil switched their purchases from Indonesia to other producing countries, mainly Malaysia. As a result, during 2010-2015, the purchase trend of CPO and derivative products from Indonesia to India saw a decrease. The declining trend of sales of CPO and derivative products during 2010-2015 was assessed in a research conducted by Gadjah Mada University. In the research, factors that caused the declining trend of palm oil sales from Indonesia to India during the period of five years were studied. Also studied is its impact to the performance of Indonesia's palm oil exports and the strategy of the Indonesian government to maintain the palm oil market in India.

The results of the research shows that the decrease of Indonesia's palm oil market share in India was due to the application of the CPO export tax at higher level than that of the derivative products of Indonesia. Other impacts include India's rising demand for Malaysia's palm oil and the development of the palm oil industry in India. The impacts of the decline include the loss of potential volume of exports, tax income from palm oil, and disruption of Indonesia's palm oil industry. The strategies implemented by the Indonesian government include the implementation of Crude Palm Oil (CPO) Supporting Fund (CSF), Indonesian Trade Promotion Center (ITPC) Chennai and the Palm Oil Industry Cluster (KIKS). The strategies of the Indonesian government to maintain the palm oil market in India shows positive impacts, although a number of parts are not yet well implemented.

Discussion

Impacts of India Palm Oil Import's Reduction

In the context of international trade, a country have to maintain the balance of the international trade. If a country import goods or commodities than they sell to other countries, they experiencing deficit trade balance. On the other hand, when a country export more than import, the trade balance is surplus. In the modern international trade, countries accelerating economic growth with surplus trade balance. A trade surplus contributes to economic growth in a country. When there are more exports, it means that there is a high level of output from a country's factories and industrial facilities, as well as a greater number of people that are being employed in order to keep these factories in operation. When a company is exporting a high level of goods, this also equates to a flow of funds into the country, which stimulates consumer spending and contributes to economic growth. When a country is importing goods, this represents an outflow of funds from that country. Local companies are the importers and they make payments to overseas entities, or the exporters. A high level of imports indicates robust domestic demand and a growing economy. If these imports are mainly productive assets, such as machinery and equipment, this is even more favorable for a country since productive assets will improve the economy's productivity over the long run (Kramer, 2023).

India's bilateral trade with Indonesia, especially on palm oil, is very dynamic. The decrease of India's demand for Indonesian palm oil during the period of 2010-2015 was more driven by the Indonesia's fiscal policy which applies double taxes on the exports of CPO and derivative products. The government's argument in applying the policy of export tax and export levy, in which the tariff for CPO is higher than for the palm oil derivative products, is to push the process of down streaming in the palm oil industry of Indonesia. The policy is seen effective as the composition of palm oil exports has changed from the one dominated by CPO to the one dominated by derivative products such as olein, stearin, and others.

But the fiscal policy of double taxes has made the price of Indonesian palm oil expensive at the global market. Indonesia is the world's largest producer of palm oil with a total production in 2021 reaching 52 million tons, of which around 37 million tons are exported. Meanwhile, Malaysia is the world's second

largest producer of palm oil with a total production in 2021 at 21 million tons. In the context of trade competition, the selling price of Malaysia's palm oil became competitive. It was such condition that had pushed India to divert its palm oil purchase from Indonesia to Malaysia. But in 2020, India started to limit and even threatened to totally stop its palm oil purchase from Malaysia. It was not because of palm oil price from Indonesia was more competitive, but because of political issue following the comments from Malaysia regarding the issue of Kashmir and on India's law on citizenship that had enraged the Indian government.

As quoted from *Reuters* on 13 January 2020, India's palm oil importers stopped all purchases of palm oil from main suppliers in Malaysia after the government personally urged them to boycott the product following the diplomatic dispute. The decision of India to stop the purchase of palm oil from Malaysia came after Malaysian prime minister criticized Indian action in Kashmir and the newly applied law on citizenship in India. Although there were no regulations that ban the purchase of palm oil from Malaysia, but Indian importers of palm oil admitted that there was an instruction from the government not to buy the palm oil from Malaysia. They diverted their purchase to Indonesia, although they have to pay it at higher price. India is the world's largest importer of palm oil with a total volume of purchase reaching 9 million tons, which are mostly bought from Indonesia and Malaysia (Jadhav, 2020).

Following the diplomatic dispute between India and Malaysia, Indonesia got a "fortune" from the surging purchases from India. Even in 2020, India became Indonesia's largest export market of palm oil, surpassing the total value and volume of purchase from China. But despite becoming fortune for Indonesia, the bigger purchase has further increased the deficit of India's trade balance with Indonesia. It has later drawn the attention of Indian government to start the development of own oil palm plantations in the country. The high price of CPO and the need to sustain the supply of CPO for industries of foods and oleo-chemical have encouraged India to start reducing its reliance on palm oil imports.

Reuters, as quoted by *CNBC Indonesia*, reported the plan of India to massively produce own palm oil. India was reported to significantly reduce its imports of CPO by taking strategic steps to develop oil palm plantations in Telangana. India consumed around 24 million tons of vegetable oils every year, of which around 10.5 million tons are fulfilled from domestic production and the other 13.5 million tons are imported. Around 45% of the imported palm oil came from Indonesia and Malaysia. India is the main importer of Indonesian CPO, with the percentage of import reaching 21.3% from the total CPO imports during 2016-2020. The high price of CPO caused the imports of India surging and triggering inflation. Even in 2021, India's imports of vegetable oils reached USD18.9 billion, increasing the deficit of its trade balance. Currently, the Indian government has started developing oil palm plantations in Telangana, with a target of 2.0 million hectares during the next four years. If the target realized, then Telangana area is expected to be able to produce CPO up to 4.0 million tons per year within the next 7 to 8 years. (Jadhav, 2020b)

India's plan to produce own palm oil in huge volume will disrupt Indonesia's income from palm oil exports. The more so, as India and China are the two main export markets of Indonesian palm oil. The combination of high price and high tariffs of export tax and export levy has made Indonesia's CPO and derivative products expensive at the global market. Fortunately, India has no other suppliers of palm oil except those in Indonesia and Malaysia. But expecting fortune from the diplomatic dispute of India and Malaysia is not the right step. Indonesia needs to anticipate India's plan to expand oil palm plantations in the country by implementing a strategy of trade diplomacy, especially on bilateral trade with India, in the right way. India's concern over the trade balance deficit that has been continually rising, including its trade balance deficit with Indonesia, should draw the attention of Indonesian government.

Losing Indian market is equal to the loss of 10% export market of Indonesian palm oil. It is a very big amount as Indonesia is potential to lose foreign exchange from palm oil up to USD5 billion. In fact, the palm oil and coal are two strategic commodities and the backbone of national economy. It is not only a matter of foreign exchange from exports, but the palm oil industry also employs around 16 million workers and smallholders. The palm oil industry also contributes to the development of least developed areas. Outside of the context of quantitative economics, the palm oil industry with the implementation of mandatory certification of Indonesian Sustainable Palm Oil (ISPO) will contribute significantly to the achievement of Sustainable Development Goals (SDGs).

Strategy of Indonesia's Trade Diplomacy

Trade diplomacy is part of the economic diplomacy. Economic diplomacy is the process of decision-making and negotiation in international economic relations on major issues such as trade, investment and finance. Economic diplomacy is also related to topics such as the environment and development which can have an impact on the policies to be taken. In other words, economic diplomacy is related to negotiations and decision-making processes in the international economy, especially in the fields of trade, finance and the environment (Van Bergeijk et al., 2011)

Facing various challenges in bilateral trade like the one mentioned above, Indonesia needs to strengthen its diplomatic strategy and international trade, especially with India. Indonesia should not only position India as market, but also as strategic business partner in the long run. The Indonesian government who relied on the palm oil commodity in its bilateral trade with India should open more details of their bilateral trade. As India is concerned with the big deficit of its trade balance, then Indonesia should also open chances to buy more products that have become the main exports of India, such as rice, wheat flour, and meat. It is not easy to increase the purchase of products from India, not because of the expensive price of Indian goods, but more as a result of domestic political issue, which often makes it difficult for the government to take an effective international trade policy.

Other strategy that can be implemented by Indonesia is to strengthen bilateral cooperation between Indonesia and India. India and ASEAN (the Association of Southeast Asian countries) have signed a comprehensive and strategic agreement, but the context of the cooperation is more like multilateral one, so that specific interests of Indonesia cannot be guaranteed to be accommodated in the cooperation. Long term cooperation under the bilateral scheme with India is badly needed now to prevent the loss of India as the main export market of Indonesian palm oil.

On the other side, India has also positioned Indonesia as its strategic trade partner. As a country with huge population, India hopes Indonesia will become the strategic export market for its main commodities. Convincing all stakeholders at home on the position of India as strategic business partner is a must so that Indonesia's global trade policy will bring positive impacts in short term, medium term and long term. Unlike diplomatic relations between India and Malaysia that are very often disturbed by political tension and diplomatic dispute, the diplomatic relations between India and Indonesia have been very good and harmonious from the beginning until now. Economic and trade cooperation should be also strengthened with a public diplomacy in the forms of cultural exchanges that have been also strengthened between the two countries.

If India and Indonesia have positioned themselves as strategic and equal trade partner, both countries in taking international economic and trade policies will not only base on merely economic competitiveness but also consider other cooperation in other fields, including cooperation in arts, culture and education. So far, we see the bilateral trade policy of Indonesia is still very pragmatic. Very

transactional. Indonesia should strengthen bilateral relations with India more comprehensively and consider other non-economic aspects. The historical aspect of diplomatic relations between India and Indonesia needs to be refreshed among decision makers. How India and Indonesia as the third world countries jointly became pioneers of the Non-Aligned Movement and anti-imperialism and colonialism. The close and warm relations between President Soekarno and Prime Minister Pandit Jawaharlal Nehru should function as an inspiration for the current governments of the two countries to strengthen their relationship for long term.

Certainly, India as the world's second most populous country in the world after China is a big market for exports of any country. But now India has realized that it will not always function as just a market, but it should strengthen its national economy in such a way that will increase its exports and change the trade balance deficit into surplus. India's plan to produce own palm oil in huge volume has shown its seriousness in raising its class from a developing country to a developed country. It is not easy to develop the economy and increase the per capita income of a country with a population of 1.4 billion. But considering India's GDP, which ranks the 7th biggest in the world, India's ambition to become a developed country is not something impossible. On technology, financial industry and security defense, India can be also categorized as a strong country.

Conclusion

India's steps to start reducing reliance on palm oil imports will cause international impacts of economy and trade to Indonesia. The impacts will include the possibility that Indonesia will lose one of its big export markets, and as a result its foreign exchange income from exports will drop. There is potential loss of exports. It is estimated that a foreign exchange income of USD5 billion is potential to lose when India is fully able to fulfill its own need of palm oil. There is no other choices for the Indonesian government, except to strengthen its trade diplomacy with India. Purchasing more products from India that will reduce the deficit in India's bilateral trade balance with Indonesia can become an effective strategy in short term. In long term, Indonesia needs to develop strategic and comprehensive bilateral cooperation with India with a spirit of pushing economic development and trade, and raising the class of the two countries from developing countries to developed countries.

Author's Contribution

The corresponding author named Tofan Mahdi contributed on collecting data, drafting manuscripts and drafting drawings, drafting key conceptual ideas, doing research and analysis also revisions of articles.

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Declaration of Competing Interest

The author declares that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

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