THE DETERMINANTS OF MALAYSIA EXPORT ON PALM OIL

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Submitted in Partial Fulfillment
of the Requirement for the
Bachelor of Business Administration
(Hons) International Business

FACULTY OF BUSINESS MANAGEMENT
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2007

ACKNOWLEDGMENT

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ABSTRACT

The supply model for crude palm oil was developed to examine the factors affecting palm oil prices. Because of the fluctuation, researcher interested to know about the factors that influence the fluctuation in quantity supply of crude palm oil in Malaysia. The finding indicates that the important determinants of palm oil are the soya bean oil, rapeseed oil and GDP per capita. The objective is to study the trend of crude palm oil, to estimate the determinant on supply of crude palm oil and to analyze the supply elasticity on supply of crude palm oil in Malaysia from 1977 until 2003. To meet the objective, researcher has used three method of the study. For trend analysis, researcher want to estimate the fluctuation happen on independent variable during the period of time. Palm oil export into the other country has fluctuated drastically over the years. Thus, the objective of this study is to investigate the factors that caused the fluctuations. In addition, for supply estimation, researcher used econometric model to analyze the data while determination of supply elasticity was produced single regression line.

The study found that there are only three variables that significant with the objective which is price of soya bean oil, price of rapeseed oil and (GDP) per capita. It implies that the overall long-run supply response of crude palm oil in Malaysia between 1977 until 2003 is inelastic. The study also showed that the exchange rate, tallow, kernel oil and crude palm oil were not significant in determining the factor that affect the supply of crude palm oil. The study also revealed that palm oils are held not only for food preparation purposes but also for other reasons such as for biodesel that using in car engine.

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CHAPTER 1

INTRODUCTION

1.1 Chapter Overview

This chapter consists of the introduction to the palm oil industry, background of the study, problem statement, and research objective, significant of the study, scope of the study, limitation of the study and definition of terms.

1.2 Introduction of Palm Oil Industry

The oil palm (Elaeis guineensis) originates from the coastal regions of West Africa and can only be grown in lowland areas near the equator. In the beginning of the 20th century the first oil palm plantations were established in Southeast Asia which at present is the most important production region in the world. Malaysia (48%) and Indonesia (36%) together account for 84% of global output and Thailand and Papua New Guinea add another 3%. Production countries in Africa (Nigeria, Ivory Coast) and Latin America (Colombia, Ecuador) play a far more modest role **(Carrere, 2001).**

When the oil palm tree reaches maturity after three to four years, bunches of palm fruits (each fruit is the size of a small plum) grow in the armpits of the palm leaves. These "Fresh Fruit Bunches" (FFB) are cut and transported to a processing mill. After the flesh of the palm fruit is separated from the kernel, it is pressed to extract the Crude Palm Oil (CPO), a yellow red liquid. CPO is first processed into refined, bleached and deodorized palm oil (RBDPO), an ingredient in margarine, shortenings, and ice cream. RBDPO is further fractionated to produce RBD olein and RBD stearine. At normal

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