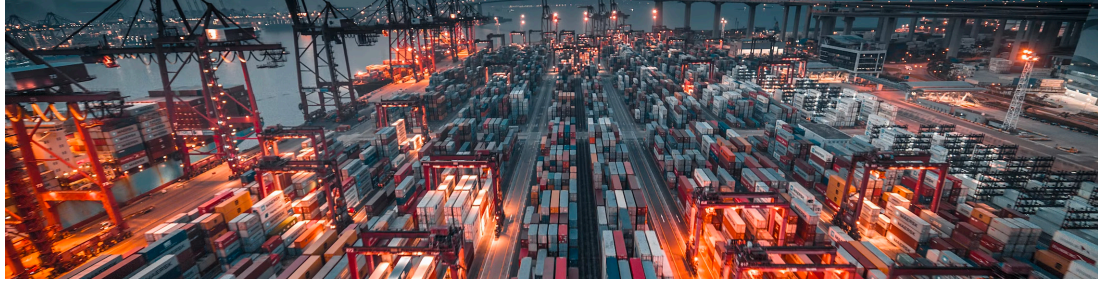


P R A K A R S A *Policy Brief*

October 2022

Agriculture and fisheries global value chains in ASEAN: a long way to achieve inclusiveness?



Key Points:

- The participation of smallholders, MSMEs, workers and women in the global value chain (GVC) of palm oil, rice, coffee and fisheries commodities in Indonesia, Thailand, the Philippines and Vietnam remain marginal and provide less benefits for their livelihood, among other pressures.
- Women in particular, play a prominent role in all commodities' value chains but their roles are rarely recognized and they received less benefits from the value chain compare to their male counterparts.
- Governments and business stakeholders need to set policies, regulations and standards to enable marginal actors at the bottom of pyramid who participate in GVC to have meaningful and beneficial participation.

Inclusiveness in the Global Value Chain

Global value chain (GVC) is a phenomenon where countries play their role as supplier of raw materials, producer of intermediate products and provider of final goods or services (DJKPI, 2012). Generally, values generated from raw material suppliers or upstream level players are lower than values generated by those at the downstream level, from intermediate production down to final products or services.

In GVC concept, inclusiveness occurs when all actors especially those at the upstream level also benefitted from their participation in GVC. Producers need to scale up or move up to higher level of production to have added values. Inevitably, it takes more capital, competencies and technology to gain greater added value hence increased benefits. Unfortunately, actors at the upstream level often lack of or do not possess these capitals, therefore in 'business as usual' GVC, these marginal actors could be excluded protractedly from receiving meaningful benefits.

Marginal actors such as smallholding farmers, MSMEs (micro small and medium enterprises) and workers, especially women workers, need support in terms of policies, regulations and business practices that add substantial values to their participation in the GVC. Therefore, governments and business communities need to ensure that GVC process is inclusive and improves marginal population groups' wellbeing and welfare by promoting business inclusiveness in the GVC.

Marginal actors in palm oil, fisheries, rice and coffee GVCs in four ASEAN countries still experience poverty, livelihood risks and poor working conditions

Southeast Asia has integrated its economic and trade under ASEAN. The ASEAN region is an alternative trade and will become the centre of the Global Value Chain (GVC) in the future (Asian Development Bank, 2021). The ADB states that 64% of exports from the ASEAN region contribute to

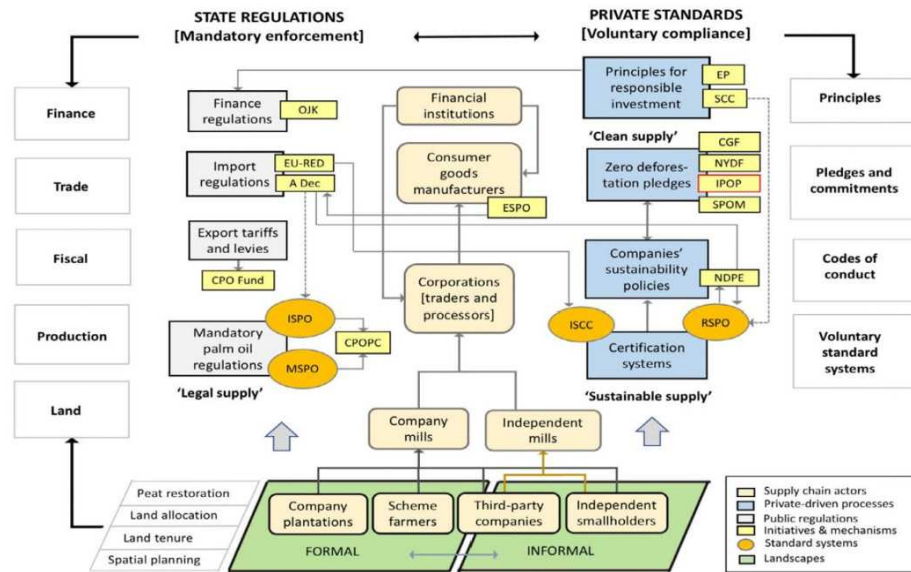
GVC. This indicates strategic importance of ASEAN region and its major contribution to GVC. However, there are several problems in the GVC process in ASEAN including socio-economic issues, economic inequality, and supply chain inclusiveness in palm oil, fisheries, rice, and coffee (ASEAN, 2019).

TAFJA (Tax and Fiscal Justice Network in Asia – Fair4All) research on palm oil, fisheries, rice, and coffee in four ASEAN countries mentioned above (PRAKARSA, 2022) found that marginal actors at upstream level often disadvantaged from their GVC participation. In Indonesia's palm oil sector, farmers and workers faced multidimensional poverty, uninformed of market prices and paid unfairly. Coffee farmers in Vietnam also faced difficulties in reaching industry quality standards, also various workers' rights violations including child labour and suffered losses due to the COVID-19 pandemic. Smallholding rice farmers and workers in Thailand and the Philippines continuously experienced highly volatile rice prices, difficulties to procure seeds and tools at affordable prices, while climate change disrupted planting and harvest seasons. Smallholder fishermen in Indonesia are often exploited by middle-level wholesalers and retailers and lack of regulation to protect them from business and occupational risks. Women workers in all these commodities are discriminated in many aspects, from lack of recognition to low-paid or unpaid work. In these four commodities, marginal actors' participation in GVC seemed to add only slight values to improve their wellbeing and living standards.

Palm oil in Indonesia: complex industry governance and long ways to rights to decent work

Palm oil is an important part of the global vegetable oil market where Indonesia and Malaysia contribute 84% of the global production of palm oil in the world (ourworldindata.org). In 2021, Indonesia produced 44.5 million metric tons of palm oil, contributed 59% of global palm oil production and export value of about 17.4 billion USD in 2021 (Statista, 2022).

Figure 1. Policies, regulations, and institutional bodies managing the palm oil sector, crossing from global to sub-national level in Indonesia



Source: Pacheco, et.al, 2017

The complexities of the oil palm governance network that affect upstream level actors are exemplified in palm oil certification regimes. Indonesia has its own certification called Indonesia Sustainable Palm Oil (ISPO) while downstream actors such as consumer in advanced economies (EU, USA, and UK) lean towards international standardization, the Roundtable of Sustainable Palm Oil (RSPO). Consequently, smallholders at the upstream level must allocate double budget for technical procurement prerequisites in both RSPO and ISPO. At the same time, their participation in both ISPO and RSPO did not improve their access to broader market and still have little insight on global CPO's price setting and are subjected to price volatility.

Working conditions are also poor where workers work without contracts or with unclear contract. PRAKARSA's previous research (2021) found that companies often violate workers' rights by paying their workers below living wage, lacking measures to keep workers' health and safety, restricting workers freedom of association and sometimes used forced labour. Harvest workers are obliged to work and meet a high company's targets; thus, families are under pressure to involve women and children to increase crop yields. These additional workers are usually not paid, only the main workers (mainly adult males in the family) receive wages. In other arrangement where companies rented land from indigenous people, the latter only receive salary but no profit-sharing for land use.

Furthermore, although women workers involve substantially in the production process, their work is often undermined. Women also work as freelancers, helping their husbands without any contract with plantation companies (PRAKARSA, 2021). Gender discrimination can also be seen in two forms; first, in productive and reproductive aspects. Women experienced gender-based discrimination, where they are marginalized and low-paid or unpaid. Women reproductive rights are not addressed, such as during menstruation, childbirth, breastfeeding is also unfulfilled. Second, structural discrimination, in which female workers are subjected to violence, particularly by their spouses

and left untouched by law enforcement. Women generate income but have limited control over household income (PRAKARSA, 2021).

Fisheries in Indonesia: lacking capitals, protection from risks and impeding regulations

Fish and fishery products are becoming increasingly important as primary sources of protein for global population, most especially for those in the Southeast Asian region. Many Southeast Asian countries are among the highest producers of fish and fishery products in the world.

With the different capacity and support, the small-scale fishermen and traditional are the most vulnerable actor in the fisheries value chain. These fishermen lack the resources and capital to explore the huge potential of Indonesian aquatic resources which results in lower catch volumes. They also have minimum access to finance as banks are generally reluctant to extend credit to the fishery sector. Banks are more interested to disburse loan to the fish processing industry rather than the capture fishery or aquaculture industry. Other constraints faced are the lack of infrastructure, technology and equipment such as ports, container ships and cold chain systems such as a cool box, ice factories and cold storage. As a result, fishermen do not have the bargaining power when it comes to choosing a market their catch which resulted in lower incomes.

Workers and small fishers do not receive welfare guarantees in contracts, decent working hours, standard wages, and insurance. On the other hand, large fishers and their employer have difficulty accessing financing, obtaining trade payments, and licensing due to the government's administrative policies that are still very poor and unorganized. Local governments have limited authority and only get retribution from fish auction activities that tend to be very undervalued compared to the economic value of fisheries activities. The central government burdens fishermen with several regulations related to quotas, exports, fishing areas, fishing gear, and non-tax

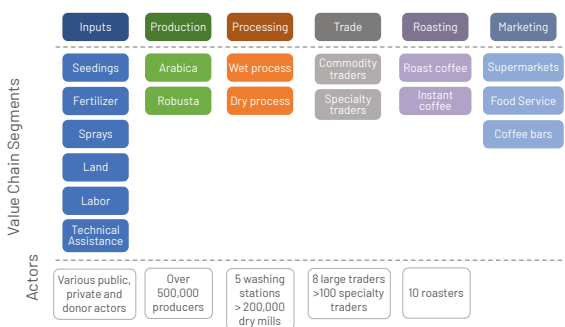
state revenues. Local governments with limited authority are unable to provide the main convenience to fishers in terms of smooth payment either, resulting in protracted cases of trade debt. Even though cash flow is one of the important points in this routine work, these fishermen did not receive special assistance from the government when the expected subsidies were not meeting the target.

Coffee in Vietnam: obstacles for upgrading and decent work challenges

Coffee is the second largest traded commodity (after oil) in the world. Vietnam is the second largest coffee exporter in terms of volumes after Brazil, with 22.45 million 60-kilogram bags of coffee beans export in 2020-2021 (Statista, 2022).

There is an unequal bargaining power among players in the coffee value chain. Roasters are the key actors (30%), because roasters are able to generate not only the highest profit margin but to capture the most value along the value chain. As with other commercial crops, coffee is price-driven commodity and price and quality of coffee at the upstream level are mainly set by roasters and end buyers. Upstream level farmers have difficulties to meet such quality standards and upgrade their produce due to lack of capitals and technological means in addition to climate and weather fluctuation. In 2015, nearly 92% of the total coffee export volume is only preliminarily processed coffee, only more than 8% is roasted and coffee products. Roasting requires scientific techniques which are obstacles of Vietnam players. The key to achieving more added values is smooth transition from raw coffee beans to high quality coffee beans.

Figure 2. Vietnam in Coffee Global Value Chain



Source: PRAKARSA, 2022

Although a prominent coffee producer, farmers and workers in coffee plantations – those at the upstream level still experience poor working conditions. Coffee farmers who create fundamental value for the coffee industry, have many restrictions in exercising their rights to unionise, to collectively bargain with bigger players and are low-paid. Children still work to help parents and family to work in coffee plantations thus interfering with their education. About 60% to 80% of child labour in Vietnam are in agricultural sector, coffee included. Protective equipment is also rarely used in Vietnam's coffee sector, where application of agrochemicals is widespread, exposing workers to health risks.

Women who work in upstream level participate in different kinds of work, but paid lower than their men counterparts. Women mostly tasked in both maintaining coffee trees and picking cherries during harvest, while male mainly involved in coffee roasting. For the same work, women often earn lower income than male. For example, for harvesting work, women's

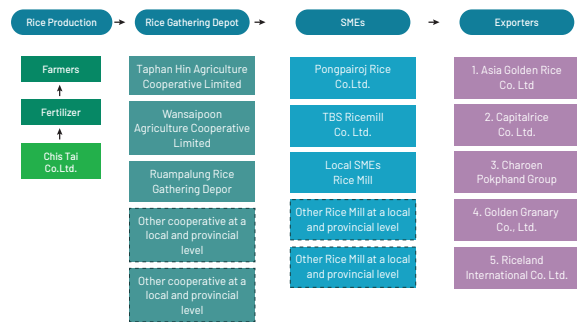
wages are around VND180,000 - 230,000 while men received around VND300,000 for similar work. In roasting work, men receive between VND 500,000 to 700,000 while their female counterparts only receive between VND400,000 to 500,000, creating gender-based income inequality.

Rice in Thailand and the Philippines: farmers' low bargaining position, prolonged poverty and climate change pressures

Rice is one of the most important foods in humanity's food chain, especially that of Asian people. Trade in Rice represent 0.16% of total world trade (OEC, 2020). In 2020, Thailand exported US\$3.88B of rice, making it the 2nd largest exporter of rice in the world (OEC, 2022). For the Philippines in 2020, Philippines exported US\$889 thousand in Rice, making it the 83rd largest exporter of Rice in the world (OEC, 2020).

Players at upstream level of rice farming are mainly farmers, while the downstream of rice farming include milling factory, rice collectors/enterprise, retail traders, broker, and exporters. The involvement of farmers does not only constrain within the plantation process, but they also involved greatly in determining the types of equipment, fertilizers, and weeding which are done manually by farmers and in every stage of the rice production (Othman, 2012).

Figure 3. Stakeholder on Rice Value Chain in Thailand



Source: PRAKARSA, 2022

Rice commodity chain is controlled and coordinated and actors have unequal power. Rice farmers do not understand the purchasing prices of traders and have almost no bargaining position against collectors or businesses. When the price of rice fell, they were forced to sell it at a low price with no other choice, or were forced to pay the price by the buyers. In the case of signing a contract with the company, although the output is offsetting and the company commits to buy it at a price higher than the market price, farmers still have to face many potential risks. When the export price of rice is low, the company tries to delay the purchase of rice from farmers. Rice left to ripen for a long time on the plant will change in moisture and quality the company may still buy at the committed price, but due to the decrease in humidity. On the farmer's side, in this case, they can choose to sell to the trader if the trader pays a higher price, the farmer will be penalized for breaking the contract (advance payment for inputs attached to the contract), interest rate, and may lose the opportunity to cooperate with the company in subsequent seasons.

High poverty incidence among smallholding farmers is related to their work in rice farming. Poverty in the Philippines has always been agricultural. The contribution of the sector to GDP has been declining (15% in 2009 and 9% in 2019).

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Farmers and fisherfolk have the highest poverty incidence among the primary sectors in the Philippines at 31.6 percent and 26.2 percent, respectively (Department of Agriculture, 2021). During the pandemic-induced lockdowns, the farmers' situation worsened. However, majority of the poor population remains in the agricultural households.

Conclusion and recommendation

In GVC concept, inclusiveness occurs when all actors especially those at the downstream level get benefits from the production process. It can be concluded that in the four commodities in four countries, the GVC is not yet inclusive because of an unfair distribution of power and benefits for actors involved along the chain. In many cases, as agricultural and fisheries sectors are buyer-driven value chains, governments are more concerned on ensuring that demand from buyers and large capital owners are met, hence smooth running of market mechanism, rather than improving the wellbeing and rights of the marginal actors at the upstream level. Intermediary players and companies at the intermediate and downstream levels also still focus in ensuring supply of raw materials from smallholders, MSMEs, workers and women at the upstream level, without further efforts to upgrade their capitals, means of production and workers' occupational standards and wellbeing.

There are several recommendations for the governments as a regulator and institutional control in a fair value chain process:

1. Governments should improve access of marginal actors to participate substantially in GVCs, for instance by

formulating regulation to empower local farmers, fishermen or MSMEs to enter the supply chain by supporting their upgrading. But at the same time also protect these actors from the negative impact of market and externalities, for instance by providing social protection for vulnerable groups against occupational risk (e.g. fishermen) or insurance against failed crops for rice and coffee farmers.

2. Business communities, in intermediary as well as downstream levels, must comply to policies and regulations regarding workers' rights and living standards and ensure meaningful and beneficial participation of marginal actors in their value chain. This can be done by promoting inclusive business principles in their business practices because when marginal actors are their suppliers, employees as well as customers, they are to be treated in respect as business partners.
3. Civil society organizations (CSOs) in the Global South together with their counterparts in the Global North should work together to monitor how dominant actors in the global value chain have incorporated fairness and inclusiveness principles in dealing with marginal actors in the value chain.
4. Governments and business communities must have gender sensitive policies in global value chains that are mainstreamed into business processes. Such policies must apply indiscriminately and contextual, down to the grassroot level where small producers or smallholding farmers, especially women, bear the consequences of gender inequality in their everyday life.

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