Chapter 1

Introduction

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1. Background

The agri-food market in Southeast Asia has been activated by the area's steady economic and population growth, and by its deepening regional and international economic integration. However, the agri-food sector in this region still has unresolved issues, such as the low incomes of small-scale farmers. There is plenty of scope for improvement in the food value chain (FVC)—which comprises the production, processing, circulation, and trade of agri-food products—from and institutional and technical perspective.

The Association of Southeast Asian Nations (ASEAN) has recognized poverty reduction and food security as critical issues that are highly related to the agri-food sector in this region. The ASEAN Economic Community Blueprint 2025 mentions that 'ASEAN cooperation on food, agriculture and forestry (FAF) plays a crucial role in the context of rising population, strong income growth and an expanding middle class' (ASEAN, 2015a: 25). The ASEAN Integrated Food Security Framework (AIFS) and Strategic Plan of Action on Food Security in the ASEAN Region (SPA-FS) 2015–2020 also emphasize the need to ensure food security and nutrition, and to improve the livelihoods of farmers, in line with the blueprint.[1] Similarly, it is stated that 'poverty alleviation is a central strategic objective of the ASEAN Community and is inextricably linked with the growth and development of the FAF sector' (ASEAN, 2015b: 7) in the 2016–2025 Vision and Strategic Plan for ASEAN Cooperation in Food, Agriculture and Forestry (VSP-FAF), which was endorsed by the 37th ASEAN Ministerial Meeting on Agriculture and Forestry (AMAF) in September 2015.

The improvement of FVCs will be an important step toward achieving poverty reduction and food security. To achieve the goals of the AIFS, the SPA-FS 2015–2020 uses the term 'FVC' in three of its nine strategic thrusts in the context of trade activation (ST2), the dissemination of new technologies and practices (ST4), and investments in food and agri-based industries (ST5).[2] Similar strategic thrusts are described in the VSP-FAF and in the strategic plans of action for ASEAN cooperation on crops (SPAC), livestock (SPAL), and fisheries (SPAF).[3] Strategic thrusts and further concrete action programmes under the strategic plans of action (SPAs) assume that the improvement of the value chain (VC) will contribute to food security, better nutrition, and equitable distribution (ST3, SPAC, SPAF). It is also expected that higher product standards a greater competitiveness of small-scale farmers and small and medium-sized enterprises (SMEs) will lead to poverty alleviation (ST4, SPAL).

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[1] The AIFS and SPA-FS 2015–2020 were developed based on the AIFS and SPA-FS 2009–2013, which were adopted by the ASEAN Summit of 2009 to ensure long-term food security and to improve the livelihoods of farmers in the ASEAN member countries.

[2] The use of the term 'FVC' is not limited in documents issued by ASEAN. The AMAF Plus Three (ASEAN countries plus China, Japan, and Korea) in 2014 referred to the establishment of FVCs in ASEAN countries through the enhancement of the public–private partnerships (PPPs), which was supported by Japan. The G7 Niigata Agriculture Ministers' Meeting in 2016 emphasized the importance of local, regional, and international linkages through FVCs, as well as farmers' participation in FVCs, for revitalizing rural areas and increasing their incomes.

[3] The SPAs were developed for the implementation of the VSP-FAF, and were adopted by 38th AMAF, in October 2016.

There is a wide range of strategies for improving FVCs, even if the discussion has been limited to the domestic chains. Two representative action programmes targeting the SPAs will benefit small farmers and SMEs, and enhance FVCs. The first programme directly focuses on small producers and SMEs, assisting them 'by provision of better technology, inputs, finance and extension services, access to higher value markets, and by facilitating integration into modern value chains' (AP 5.1 in the SPAC and SPAF).[4] This programme set several activities and sub-activities, such as capacity development and training (5.1.1.1, SPAC; 5.1.1, SPAF); identification of the best practices regarding farmer groups, cooperatives, and contract farming (4.1.2, SPAL); and the promotion of cluster farming to comply with regional/international standards (5.1.1, SPAF). The second programme aims to 'encourage larger scale enterprises to perform a mentoring role for smallholders to foster adoption of innovations and participation in high value markets' (4.1.3, SPAL).[5] The promotion of public–private partnerships (PPPs) is stressed in this programme as a means of extending technology from larger enterprises to farmers and SMEs (1.6.1, SPAC; 5.2.1, SPAF).[6]

As is the case in ASEAN strategic papers, the concept of FVC encompasses a wide range of issues.[7] We thus had to confine the scope of this study to the main points of the discussion here.

2. Aim and Scope

This report aims to improve the understanding of issues regarding the FVC in the ASEAN member states by providing fundamental information on the agri-food industries in each country based on statistical data. The main focus will be on agri-food industries, consisting of the agriculture, fishing, and food-and-beverages industries—all of which produce edible products.[8] But the analysis will also include information on the wholesale and retail sectors, and on the hotel and restaurant industries.

The report looks at the agri-food industries mainly from two points of view. The first is the vertical relationship amongst industries, analysed based on input–output structures. Our report measures the social and economic effects of the linkages amongst industries within each country. It will therefore supplement the recent studies that emphasize the importance of intercountry linkages for efficient economic growth, such as Greenville et al. (2017a, 2017b) and Fujita (2017). The second is the competitiveness of each agri-food item produced by the ASEAN countries. The information provided in this report with regard to individual products will serve as a basis for resource allocation to improve production efficiency, given the level of progress toward regional integration.

This report uses a common framework to summarize the data from different ASEAN countries, thereby facilitating intercountry comparisons and enabling the characteristics of individual ASEAN countries

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[4] Activity 4.1.2 in the SPAL, which emphasizes the access of small-scale producers to quality inputs and high-value markets for outputs, can be seen as pursuing the same objective.

[5] AP 5.2 in the SPAC and SPAF is similar to Activity 4.1.3 in the SPAL.

[6] Rankin et al. (2016) shows that PPPs aiming to develop agricultural VCs account for the largest share (57%) of 70 agricultural PPP case studies in 15 African, Asian, and Latin American countries.

[7] See Appendix 1 for the background of the FVC concept.

[8] See Appendix 2 for a more detailed discussion about target industries and products. Edible and inedible products cannot be strictly separated in several analyses. For example, although shares of production values are limited, the agricultural sector as classified under Eora26 (Eora, 2018) includes industries that produce inedible items such as tobacco and forestry products.

to emerge. There is a review of each of the eight countries in this report, and each review is composed of the following four parts:

Social and Economic Conditions

The current status and trends regarding social and economic conditions are summarized first. We note that the growing population and economy are major drivers of the growth in demand for agri-food products (Appendix 3.1). Then we describe the relevant characteristics of agri-food industries using data on value added (VA), production value, and input–output structures (Appendix 3.2).

Linkages amongst FVC-related Industries

Second, we focus on how the development of downstream sectors in the FVC, such as the hotel-and-restaurant and retail trade industries, induce growth in upstream sectors, estimating the effects that an increase in final demand will have on the demand for intermediate inputs and VA in FVC-related industries (Appendix 3.2). In addition, we measure the changes in the number of employees and in their per capita compensation against the growth rates of each industry (Appendix 3.3).

Production inducement, or the 'ripple effect', between one industry and another, especially when originating in downstream sectors, is an essential factor in the development of the FVC.[9] The ripple effect is also one (albeit indirect) answer to the question of how an increase in the demand for high-value agri-food products could affect the overall economy. We can interpret the value of an increase in demand for a product based on the extent to which final demand increases as a result, despite a constant or rising price.[10]

Supply–demand Balance of Agri-food Products

Next, the structure of agri-food production industries is best clarified by describing the balance between the supply of and demand for individual agri-food products, including vegetables, livestock, aquatic products, and processed food. We start with an overview of the quantity produced, the domestic supply, and the quantity that is imported and/or exported (Appendix 3.4). Then, the prices and volumes of both exported and imported products are summarized (Appendix 3.6).[11]

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[9] Downstream industries in an FVC are thought to be key drivers for the development and modernisation of the chain. See Dolan, Humphrey, and Harris-Pascal (1999), Dolan and Humphrey (2000, 2004), and Reardon et al. (2012).

[10] This could be achieved by focusing on particular characteristics of products, such as their branding, safety, or functionality. High-value products can be defined in various ways. For instance, they can be defined as items that are produced in the input–output structure with high VA rates.

[11] Price and market shares of exported products are representative indexes for evaluating the upgrading of the global value chain (GVC) (Kaplinsky and Morris, 2001; Kaplinsky and Readman, 2005; Sturgeon and Gereffi, 2009; Gereffi and Frederick, 2010).

The Competitiveness of Each Product in the ASEAN Region

Finally, the competitiveness of individual agri-food products originating from the ASEAN region is estimated by using two different methods.[12] One is the measurement of non-price competitiveness, or the degree of differentiation, of products exported to the ASEAN market (Appendixes 3.5 and 3.6). The other is the evaluation of productivity, including land or feed productivity, to gauge the profitability for producers and comparative advantage; this, in turn, will indicate physical productivity relative to other ASEAN member countries (Appendix 3.7). Comparative advantage can be a meaningful indicator to use as a basis for improving the production efficiency of a country or region when the products in question cannot be differentiated from those made in other countries or regions.

The evaluation of individual products gave rise to the question of how to efficiently increase productivity in the context of a deepening economic integration in the region. Information on individual products may help determine which ones should receive the most production and sales resources.[13]

3. Target Countries

The countries targeted in this report include eight of the ten ASEAN member states (excluding Singapore and Brunei). However, Figure 1.1 includes all 10 ASEAN members, with Figure 1.1 A showing domestic per capita demand for agri-food production industries against per capita GDP, and Figure 1.1 B showing the VA of the agri-food production industries against per capita GDP. In both graphs, all the countries other than Viet Nam and the Lao People's Democratic Republic (Lao PDR) are listed in descending order based on their per capita GDPs. Broadly speaking, the higher a country's per capita GDP, the higher its per capita demand for agri-food products (Figure 1.1 A). Similarly, in Figure 1.1B, the pattern with per capita GDP and per capita VA in agri-food production industries is similar, though not as consistent.

In this report, Chapters 2 to 9 each present the relevant information for one of the targeted countries, in the following order: Malaysia, Thailand, Indonesia, Philippines, Viet Nam, Lao PDR, Cambodia, and Myanmar. Chapter 10 summarizes the findings of the research presented in the previous chapters. The Appendixes provide background information regarding the FVC concept, data, and methodology, as well as additional information on the competitiveness of individual products.

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[12] There are various methods of developing FVCs. One is to improve the product mix by increasing the proportion of the more profitable products in a sector (which relates to the discussion in this report). Other methods include pursuing technical progress, with a view to stimulating demand, and increasing the number of steps in a production process, to induce further economic activities.

[13] For example, the selection of prioritized products is an important issue in the development plan for SMEs in Cambodia (Cambodia Industrial Development Policy 2015–2025, 2015). Cambodia's IDP 2015–2025 includes a study on the selection of priority products to be processed for export in the medium to long term.

Figure 1.1. Per Capita Demand and VA vs. Per Capita GDP in ASEAN Countries, 2015
($1,000/person)

A. Domestic Per Capita Demand for
Agri-food Production Industries
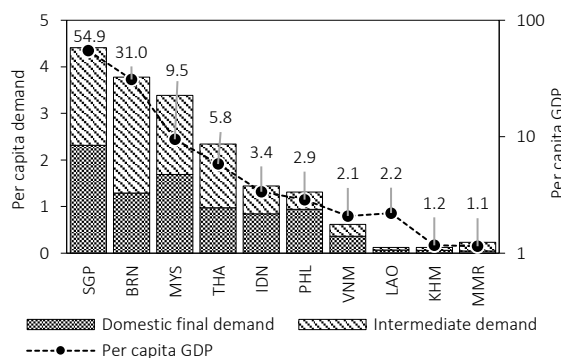
B. Per Capita VA of Agri-food Production
Industries
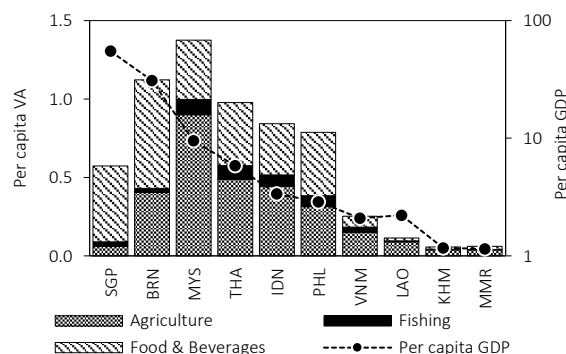
ASEAN = Association of Southeast Asian Nations, BRN = Brunei, GDP = gross domestic product, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR – Myanmar, MYS = Malaysia, PHL = Philippines, SGP = Singapore, THA = Thailand, VA = value added, VNM = Viet Nam.
Notes: Per capita demand is domestic. Both per capita demand and VA are divided by the total population in each country. The values for the agriculture, fishing, and food-and-beverage industries are based on data from Eora and the International Monetary Fund (IMF).
Sources: Estimates based on data from Eora (2018) and the IMF (2018).