Competitive Pressures and Labour Rights
The Indonesian Oil Palm Plantation and Automobile Sectors
Hariati Sinaga:  
Competitive Pressures and Labour Rights.  
The Indonesian Oil Palm Plantation and Automobile Sectors  
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While the link between trade liberalisation and labour rights has been mostly studied at a national level, this book analyses this relation at a sectoral level. It draws on case studies of oil palm plantations and the automobile sector in Indonesia. Two main research questions guide the book:  
1. How do labour- and capital-intensive sectors in Indonesia respond to competitive pressures brought about by trade liberalisation?  
2. What are the implications of such responses on labour rights in the two sectors?  

Employing the Global Production Network approach, the book analyses power relations between the state, firms, and labour. It shows how competitive pressures brought about by trade liberalisation have different impacts on labour rights in the automobile and the oil palm plantation sectors. While sectoral characteristics (e.g., capital- or labour-intensity, capital mobility, skill requirements) shape the diverse impacts, they are actually products of power interplays between the state, firms, and labour.  

**Key words:** Trade liberalisation, labour rights, employment, labour regime, labour agency, global production networks, palm oil, automobile, Indonesia  

Hariati Sinaga has recently finished her PhD at the University of Kassel, Germany. Her research interests are labour rights, trade liberalisation, global production networks, and gender.
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<td>ASEAN-China Free Trade Agreement</td>
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<td>AFTA</td>
<td>ASEAN Free Trade Agreement</td>
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<td>ALSI</td>
<td>Asosiasi Lembaga Sertifikasi Indonesia/ Indonesian Certifying Bodies Association</td>
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<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
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<td>APL</td>
<td>Area Penggunaan Lain/Other Utilisation Area</td>
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<td>APOLIN</td>
<td>Asosiasi Produsen Oleo-Chemical Indonesia/ Indonesian Oleochemicals Manufacturers Association</td>
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<td>APROBI</td>
<td>Asosiasi Produsen Biofuels Indonesia/ Indonesian Biofuels Producers Association</td>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>BDCC</td>
<td>Buyer-Driven Commodity Chain</td>
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<tr>
<td>BHL</td>
<td>Buruh Harian Lepas/ casual labourer</td>
</tr>
<tr>
<td>BKS-PPS</td>
<td>Badan Kerja Sama Perusahaan Perkebunan Sumatra/ Cooperation Board of Sumatra Plantation Companies</td>
</tr>
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<td>BPJS</td>
<td>Badan Penyelenggara Jaminan Sosial Kesehatan/ Health Insurance Providing Body</td>
</tr>
<tr>
<td>BTI</td>
<td>Barisan Tani Indonesia/ Indonesian Peasants Front</td>
</tr>
<tr>
<td>CB</td>
<td>Certification Body</td>
</tr>
<tr>
<td>CBU</td>
<td>Completely Built Up</td>
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<tr>
<td>CIF</td>
<td>Cost, Insurance, and Freight</td>
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<tr>
<td>CKD</td>
<td>Completely Knocked Down</td>
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<tr>
<td>CLS</td>
<td>Core Labour Standards</td>
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<tr>
<td>CPO</td>
<td>Crude Palm Oil</td>
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<tr>
<td>CSPO</td>
<td>Certified Sustainable Palm Oil</td>
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<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<tr>
<td>DMSI</td>
<td>Dewan Minyak Sawit Indonesia/ Indonesian Palm Oil Board</td>
</tr>
<tr>
<td>EPA</td>
<td>Environmental Protection Agency</td>
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<tr>
<td>ETI</td>
<td>Ethical Trading Initiative</td>
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<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FBSI</td>
<td>Federasi Buruh Seluruh Indonesia/ All Indonesian Workers’ Federation</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FFB</td>
<td>Fresh Fruit Bunches</td>
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<tr>
<td>FSP LEM</td>
<td>Federasi Serikat Pekerja Logam, Elektronik, M</td>
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<td>FSP-BUN</td>
<td>Federasi Serikat Pekerja Perkebunan/ Federation of Plantation Workers</td>
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FSPI  *Federasi Serikat Petani Indonesia*/ the Federation of Indonesian Peasant Union
FSPMI  *Federasi Serikat Pekerja Metal Indonesia*/ Federation of Indonesian Metal Workers’ Union
GAPKI  Gabungan Pengusaha Kelapa Sawit Indonesia/ Indonesian Oil Palm Companies Association
GCC  Global Commodity Chain
GDP  Gross Domestic Product
Gerwani  *Gerakan Wanita Indonesia*/ Indonesian Women’s Movement
GFA  Global Framework Agreement
GIMNI  Gabungan Industri Minyak Nabati Indonesia/ Association of Indonesian Vegetable Oils Industry
GLN  Global Labour Network
GPN  Global Production Network
GUF  Global Union Federation
GVC  Global Value Chain
HAPSARI  *Himpunan Serikat Perempuan Indonesia*/ Indonesian Women Union
HGU  *Hak Guna Usaha*/ Business Utilisation Right
HKTI  *Himpunan Kerukunan Tani Indonesia*/ Indonesian Peasant’s Harmony Association
ICDX  Indonesia Commodity and Derivatives Exchange
ICFTU  International Confederation of Free Trade Unions
IFC  International Finance Cooperation
IJJEPA  Indonesian-Japan Economic Partnership Agreement
ILO  International Labour Organization
IMF  International Monetary Fund
ISPO  Indonesian Sustainable Palm Oil
IUP  *Ijin Usaha Perkebunan*/ Plantation Business Permit
JMR  Jakarta Metropolitan Region
KAJS  *Komite Aksi Jaminan Sosial*/ Action Committee for Social Security
KKPA  *Kredit Koperasi Primer Anggota*/ Primary Cooperative Credits for Members
KMSI  *Komisi Minyak Sawit Indonesia*/ Indonesian Palm Oil Commission
KONPHALINDO  *Konsorsium Nasional untuk Pelestarian Hutan dan Alam Indonesia*/ National Consortium for Forest and Nature Conservation in Indonesia
KORPRI  *Korps Pegawai Republik Indonesia*/ Indonesian Public Employee Corps
KPBN  Kharisma Pemasaran Bersama Nusantara/Kharisma Archipelago Collective Marketing
KSBSI  Konfederasi Serikat Buruh Sejahtera Indonesia: Confederation of Indonesian Prosperity Trade Union
KSPSI  Konfederasi Serikat Pekerja Seluruh Indonesia: Confederation of All-Indonesian Workers Union
KUD  Koperasi Unit Desa
LBH  Lembaga Bantuan Hukum
MBB  Masyarakat Bekasi Bersatu/ Bekasi People Union
MDEX  Malaysia Derivatives Exchange
MNEs  Multi-National Enterprises
MPBI  Majelis Perwakilan Buruh Indonesia: Assembly of Indonesian Workers Representative
MPOB  Malaysian Palm Oil Board
MPV  Multi-Purpose Vehicle
NES  Nucleus Estate and Smallholder
NGO  Non-Governmental Organisations
NLA  National Land Agency
OEM  Original Equipment Manufacturer
P3KH  Principal Approval of Forest Land Reserve
PBS  Perusahaan Besar Swasta/ Large Private Company
PDCC  Producer-Driven Commodity Chain
PERBBUNI  Perhimpunan Buruh Perkebunan Independen: Independent Plantation Workers Association
PIR-NES  Perkebunan Inti Rakyat/ Nucleus Estate and Smallholder
PIR-TRANS  Perkebunan Inti Rakyat- Transmigrasi/ Nucleus Estate and Smallholder – Transmigration
PKI  Partai Komunis Indonesia/ Indonesia Communist Party
PKM  Palm Kernel Meal
PKO  Palm Kernel Oil
PKS  Pabrik Kelapa Sawit/ Palm Oil Mill
PPKS  Pusat Penelitian Kelapa Sawit/ Indonesian Oil Palm Research Institute
PTPN  Perseroan Terbatas Perkebunan Nusantara
QCC  Quality Control Circle
RBD  Refined Bleached Deodorised
RBDPO  Refined Bleached Deodorised Palm Oil
ROO  Rule of Origin
RSPO  Roundtable of Sustainable Palm Oil
SBPI  Serikat Buruh Perkebunan Indonesia/ Indonesian Plantation Workers’ Union
SEKBER-ORI  Sekretariat Bersama Organisasi Rakyat Independen/ Common Secretariat for Indonesian People Organization
SKEPHI  Sekretariat Kerja Sama Pelestarian Hutan Indonesia: The Secretariat for Forest Conservation in Indonesia
SKU    Syarat Kerja Umum/ General Work Requirement
SMEs   Small- and Medium-level Entreprises
SOBSI  Sentral Organisasi Buruh Seluruh Indonesia/ All-Indonesia Central Workers’ Organization
SPI    Serikat Petani Indonesia/ Indonesian Peasants Union
SPKS   Serikat Petani Kelapa Sawit/ Oil Palm Farmers Union
SPSI   Serikat Pekerja Seluruh Indonesia/ All Indonesian Workers’ Union
SPTP-BUN  Serikat Pekerja Tingkat Perusahaan Perkebunan
STN    Serikat Tani Nasional/ National Peasants Union
TAM    Toyota Astra Motor
TAN    Transnational Advocacy Networks
TNC    Trans-National Corporation
TPS    Toyota Production System
TUN    Transnational Union Networks
TURC   Trade Union Research Centre
UNIDO  United Nations Industrial Development Organization
VA     Value Analysis
VE     Value Engineering
VOC    Vereenigde Ost-Indische Compagnie
VTSP   Vereniging van Spoor-en Tramwegpersoneel
WALHI  Wahana Lingkungan Hidup Indonesia/ The Indonesian Forum for the Environment
WTO    World Trade Organization
WWF    World Wildlife Fund

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Introduction

There has been a proliferated discussion on the link between trade liberalisation and labour rights. The main argument of the discussion is that trade liberalisation creates and intensifies competitive pressures that eventually contribute to the abuse of labour rights (Pillay 2007: 2), placing countries into the so-called ‘race to the bottom’ (Scherrer and Greven 2001: 53; Kucera 2002: 31; Jansen and Lee 2007: 13). The discussions are not only focusing on North-South trade, but also on trade between Southern countries. In developing countries, the relationship between export-oriented industries and trade liberalisation, partly indicated by the establishment of Export Processing Zones (EPZs), has often been associated with the abuse of workers’ rights (ICFTU 2004; Cling et al. 2007; ITUC 2010). Nonetheless, most of the existing studies on race to the bottom are at a national level. There is still a lack of studies that compare two different sectors in the face of competitive pressures. At the sectoral level, differentiating factors should be taken into account as they may lead to different results across sectors. Such factors include labour intensity, industry entrance, capital mobility, workers’ skill level, and labour regime. Taking a case study that compares two sectors with these different factors would presumably lead to different results.

Further, studies on the causal story between trade liberalisation and labour rights have often employed mainstream trade theories. In this context, the existing studies attempt to investigate how their findings confirm the hypotheses made under the lens of the standard trade theories. However, as will be described in more detail in the next section, the mainstream trade theories dismiss the issue of power in their analyses. The theories rest on the assumption that actors are autonomous and equally empowered. Thus, they overlook the unequal power relations. In this regard, taking into account power relations would provide better insights in the analyses.

Related to power discussions, mainstream trade theories exclude the role of labour and the state in the causal link between trade liberalisation and labour rights. Mainstream trade theories associate the state with countries, which are seen as homogenous and well-defined interests (Sheppard 2012: 58). Meanwhile, the theories consider labour as a factor of production, and thus undermine labour agency.

Additionally, the increasing intra-industry trade reflects how sectors currently engage in the global economy in a distinctive way. While mainstream trade theories have also recently dealt with intra-industry trade, the fact that these theories undermine power interplay between firms, state and labour suggests a
comparative study using a theoretical approach that vigorously takes the issue of power and considers the intra-industry trade relation at the same time.

In particular, Indonesia is an example of a developing country that is attempting to reap the benefit from trade liberalisation. There is a plethora of studies on Indonesia with regard to trade liberalisation (e.g., Aswicahyono and Anas 2001; Anas and Roesad 2003; Hidayat and Widarti 2005; Soesastro and Basri 2005). Some of them also seek to understand the connection between trade liberalisation and labour issues in Indonesia. However, there is a deficit comparative study on trade liberalisation and labour rights at a sectoral level in Indonesia that also takes into account the issue of power.

1.1. Trade Liberalisation and Labour Rights: State of the Art

I propose that the discussions concerning a country’s competitiveness in the face of a liberalised foreign investment as well as liberalised trade involve two contending camps. The first camp holds the idea of ‘conventional wisdom’. On one hand, the engagement of governments with race to the bottom practices is due to the desire to create jobs and, in a more general way, to support economic development. On the other hand, governments are aware of the mobility of multinational companies. A comparative study (Berik and Rodgers 2008), which examines Bangladesh and Cambodia, shows that these two countries experience strong pressures to cut labour costs and improve the price competitiveness of their textile and garment exports. Mosley and Uno (2007) conclude that there is a negative relationship between trade openness with labour rights, while a positive relationship exists between foreign direct investment (FDI) and labour rights. This implies that while trade openness would adversely affect labour rights, increased FDI would actually improve labour rights. Mah (1997) reveals that ratification of the conventions on freedom of association and non-discrimination adversely affects the export performance of developing countries. Busse (2004) observes that while trade openness has a negative link with union rights and forced labour, it is positively, albeit insignificantly, associated with discrimination and child labour. Davies and Vadlamannati (2013) demonstrate how labour law and practices in one country is interdependent to those in other countries, particularly between developing countries with weak labour standards. With regard to FDI, some studies go further by disaggregating FDI and scrutinising the connection between labour rights and different types of FDI.¹ Azemar and Desbordes (2010) argue that labour market deregulation

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¹ Types of FDI can be explained by different motives of investment. A horizontal FDI occurs when FDI is intended to target a foreign market aiming at achieving economies of scale. Factor costs and market size between home and host countries are considered similar (Azemar and Desbordes 2010: 930). Vertical FDI takes place when FDI is driven by a motive to use factor costs difference. In this case, productions of the host country are
would attract total FDI despite the positive relation between high entry costs (including hiring new workers) with horizontal FDI. Gorg (2005) examines labour market regulations that would ease the exit of a multinational, and discovers that such regulations positively influence US manufacturing FDIs. In spite of arguing that core labour standards do not significantly shape trade performance, Hasnat (2002) points out that the rights to organise and undertake collective bargaining are negatively associated with exports.

Meanwhile, the second camp claims that there is an inconclusive negative link between labour rights and investment, as well as trade liberalisation. This camp even proposes that securing labour rights will increase a country’s competitiveness. Studies conducted by the ILO (2007), which look particularly at certain international labour standards, show that compliance to labour standards positively contributes to a country’s competitiveness and good economic performance. Kucera (2002) finds no solid evidence in holding up the conventional wisdom. Other studies (Maskus 1997; Brown et al. 2003; Jansen & Lee 2007) are at one with Kucera. At a micro level, a study of the most unionised airline (O’Reilly and Pfeffer 2000, as cited in Rogovsky and Sims 2002: 68) argues that the success of the airline is due to its healthy industrial relations climate.

These studies primarily focus on national level or cross-country comparisons. Studies that put emphasis on cross-sector comparisons are lacking. National-level studies might connote inconclusive theses at a sectoral level due to varied sectoral aspects (e.g. industry entrance, capital mobility, workers’ skills). One among the few studies on sectoral level, which will also be relevant in the comparison between capital- and labour-intensive sectors, is the study by Blanton and Blanton (2009). They examine whether human rights serve as a decisive factor for locating FDI across different type of sectors. In this context, Blanton and Blanton (2009: 473–74) argue that the link between human rights and FDI location can be found through skill levels and social license. The results generally showed that ‘…countries where physical integrity rights are respected are more respectful in attracting FDI in sectors that seek higher skill levels and greater levels of integration within the host society’ (Blanton and Blanton 2009: 483).

Other relevant studies compare the different impact of trade liberalisation on low- and high-skill sectors. While Heckscher-Ohlin-Stolper-Samuelson theorems predict that trade between the North and the South will reduce wage inequality in the South, some scholars do not confirm this prediction through their empirical studies. Arbache et al. (2004) found that the impact of trade

brought back to the home country. Export platform FDI is a combination between horizontal and vertical FDI, in which FDI is located into a certain host country due to factor costs difference and productions are exported to a neighbouring third market.
openness on wages in developing countries was insignificant for workers in the
top two education groups, while the openness negatively affected those in the
lower level education groups. The authors argue that technological transfer
might serve as an alternative explanation for this situation (ibid.: F77). Trade
liberalisation may be accompanied by increasing imported technology, which in
turn leads to the increasing demand for highly skilled labour. Other scholars
(Robbins 1994, 1996; Cragg and Eperlbaum 1996; Beyer et al. 1999;
Desjonqueres et al. 1999; Hanson and Harrison 1999; Munshi 2008; Ing 2009)
concur to the argument. Meanwhile, Feenstra and Hanson (1997) claim that
increasing wage inequality in Mexico is associated with foreign capital flow.
Morone (2003: 5) also shows how Latin American countries saw rising wage
inequality after trade openness since the mid-1980s.

Sectoral level studies have been the emphasis of the global value chain (GVC)
research field, as different sectors engage in different production networks. They
particularly focus on economic governance characterising inter-firm
relationship. Nonetheless, these studies have not made reference to trade
liberalisation, except noting the fact that there has been increasing intra-industry
trade. Whereas the GVC framework puts emphasis on inter-firm relationship,
the global production networks (GPN) approach takes into account other actors
influencing (or influenced by) such relationship. As will be explained in more
detail in the next chapter, GPN analysis considers, among others, social issues
and the power aspect in such issues. It is argued, however, that the GPN
approach has not yet taken into account labour situations sufficiently (Barrientos
2001a). Examination on labour has been limited to employment number along
value chains, with some attempts to identify employment category, skill and
gender (Barrientos et al. 2010). There have been increasing efforts to investigate
labour situations in factories engaged in the global production system in
different sectors. To exemplify, Oxfam (2004) reveals the poor working
conditions facing workers as well as precarious employment in supplier
factories in apparel and agricultural sectors. Similar results are indicated by a
study on workers in factories supplying to giant retailers such as Walmart,
Tesco, Carrefour, Aldi and Lidl (Clean Clothes Campaign, 2009). Barrientos
and Ware Barrientos (2002) discover significant informal employment with low
levels of income and social protection engaged in fruit exports from Chile and
South Africa to the United Kingdom. Other studies have been concerned with
the effectiveness of voluntary codes of conduct applied in the global production
system. Barrientos and Smith (2006) argue that while the Ethical Trading
Initiative (ETI) has been praised for encouraging improvement in working
conditions, the majority of the improvement is on ‘visible issues’ such as health
and safety, hence, the ‘non-visible issues’, such as discrimination and freedom
of association, are less touched.
In the case of Indonesia, some relevant studies have been conducted, such as on wage differentials between men and women (Feridhanusetyawan et al. 2001), trade policies and trade liberalisation (Aswicahyono and Anas 2001; Soesastro and Basri 2005), and the relationship between multilateral agreement with labour, agriculture and environment (Anas and Roesad 2003). Nonetheless, there is a lack of comparative studies that attempt to understand trade liberalisation and labour rights at a sectoral level in Indonesia. As mentioned, differentiating factors (e.g., labour intensity, industry entrance, capital mobility, workers’ skill level, and labour regime) should be taken into account as they may lead to different results across sectors. This would be overlooked in a national level study. A joint study between ILO and ASEAN focuses on Indonesia, which essentially investigates AFTA and its social implications in labour and employment (Hidayat and Widarti 2005). The study uses the automotive industry as one of the case studies, but not the palm oil sector. Furthermore, the study does not undertake a comparative perspective.

Considering the differentiating factors, particularly the labour intensity, this book aims to compare labour- and capital-intensive sectors in Indonesia. In view of this, I select the oil palm plantation and automobile sectors. Both the automobile and the oil palm plantation sectors serve as two of the major sectors in Indonesia. While the former is one of the leading industries in the Indonesian manufacturing sector, the latter has become the front runner in the country’s agricultural sector over the past decades. In terms of the automobile sector, Indonesia plays two interconnected roles—namely, as an important host for several manufacturing activities, as well as being a large market in Southeast Asia, apart from Thailand and Malaysia. Meanwhile, since 2007, Indonesia has been the world’s largest exporter of crude palm oil. Comparing these two large sectors is not only of importance for comparative analysis between labour- and capital-intensive sectors, but also between manufacturing and agriculture sectors.

The above descriptions show how the existing studies on trade liberalisation and labour rights remain unclear in providing empirical evidence on trade liberalisation and the implications on labour at the sectoral level, particularly in labour- and capital-intensive sectors in a developing country. Moreover, although studies in the GPN research field have focused on the sectoral level, they have not sufficiently provided a systematic comparison between different types of sectors. Furthermore, even though the increasing studies in the GPN research field is contributed by expanding intra-industry trade, there are only few studies that put reference to trade liberalisation and examine what it means for workers in the global production system. In addition, there is still a lack of comparative study on trade liberalisation and the implications on labour at a sectoral level in Indonesia.
1.2. Standard Trade Theories on Trade Liberalisation and Labour Rights

As mentioned, discussions on trade liberalisation have been dominated by mainstream economics. The rationale of free trade emanates from the 18th and 19th centuries when Adam Smith and then David Ricardo developed the basis for international trade as part of their efforts to make a case for free trade (Pugel and Lindert 2000: 32). Attempting to contend the mercantilist approach in trade, Smith argues that countries that have the absolute advantage position in producing certain goods will benefit from free trade. In other words, the absolute advantage position is the reason for countries to trade. A country is considered to have an absolute advantage position if it can produce certain goods at a lower cost, or be more productive, than another country. Advancing this theory, David Ricardo argues that countries do not have to possess absolute advantage in order to reap the benefits of trade. Instead, as long as the countries have comparative advantage in producing certain goods, they have enough reason to trade. A country has a comparative advantage if it can produce certain goods with a lower opportunity cost compared to another country. Comparative advantage, as Ricardo argues, leads to specialisation, through which every involved country can capture the gain from free trade, creating a positive-sum game.

Both absolute advantage and comparative advantage theories rest on similar assumptions. First, the theories assume two countries with two goods. Assumed as homogeneous (e.g. same skill, training), labour is the only relevant factor of production in measuring cost and productivity. Each trading country is assumed to have full employment. Resources are assumed to have mobility within the country, but not between countries. Furthermore, the theories assume zero transportation costs and a constant return to scale.

The notion of ‘race to the bottom’ has been the key criticism to free trade opponents. The notion basically refers to a competition that brings about negative results for all involved parties. The theory of comparative advantage holds the assumption that resources (capital and labour) are immobile between countries. In reality, investment is liberalised and labourers are free to move between countries. It is argued that ‘...if that capital is mobile, as is the case in a post-Cold War world where most nations are open for business, then corporations are no longer constrained to settle for comparative advantage but can pursue absolute advantage based on the cheapest adequate labor’ (Fletcher 2005). This argument also implies that the movement of labour is relatively more restricted than that of capital, although both resources can move freely between countries.
New trade theory has subsequently developed, as the theories of absolute advantage and comparative advantage, to a certain extent, have failed to capture the reasons for why countries trade in the real world. Grounding on the assumption of increasing return to scale, new trade theory contends that trade liberalisation will be beneficial as it opens more access to foreign markets, which eventually allows firms to achieve economies of scale. Economies of scale can be external or internal (Pugel and Lindert 2000: 103, 111). Internal economies of scale refer to firm expansion that will in turn allow for a decline in a firm’s average costs. External economies of scale occur when the industry expansion within a specific geographic area is the reason for the firm’s declining average costs. This rationalises the establishment of an industry cluster. Unlike the absolute advantage and comparative advantage theories, new trade theorists consider the imperfect market competition. The imperfect market competition is, for instance, referred to differentiated products, which gives rise to intra-industry trade (Salvatore 2001: 177). Given the differentiated products, accessing larger markets through trade liberalisation is important to achieve economies of scale. Moreover, the differentiated products also imply a market with monopolistic competition, in which a large number of firms compete in selling different varieties of products (Pugel and Lindert 2000: 103). Differentiated products also allow firms to have control over the prices. Furthermore, imperfect market competition might also indicate one (monopoly) or a few number of firms (oligopoly) dominating the market. According to students of new trade theory, this situation justifies government regulations to protect a certain industry during its learning phase before it is allowed to compete in the free market.

Still in the realms of standard trade theory, Heckscher-Ohlin theorem is elaborated as an attempt to advance absolute and comparative advantage theories proposed by Smith and Ricardo. The theorem proposes that different factor endowment is the reason for countries to trade. In this case, according to the theorem, a country shall trade goods that intensively use its abundant factor of production. Developed based on Heckscher-Ohlin theorem, Stolper-Samuelson theorem focuses on the effect of free trade among factors of production (Arbache et al. 2004: F75). The theorem argues that the increase in the price of a certain good will lead to an increase in return for factor endowment intensively used in the production of the good. On the North-South trade, Heckscher-Ohlin and Stolper-Samuelson theorems predict that free trade between the North and the South will result in decreasing wage inequality in the South. However, as mentioned in the literature review, some empirical evidences show otherwise, that is, increasing international trade has been followed by wage dispersion in developing countries. Alternative theoretical explanations have also been elaborated on in order to address this phenomenon.
Among others, one is related to technological change. An additional effect of free trade is a rapid inflow of foreign technology resulting from FDI and increased imports (ibid.: F77). This inflow is presumably skill-biased because it is originally designed in industrialised world, which is skill-intensive (Berman et al. 1998, as cited in Arbache et al. 2004: F77). The introduction of new technologies is hence followed by increased demand of skilled workers (ibid.). This effect has been termed as ‘skill-enhancing-trade hypothesis’ by Robbins (1996: 2), who argues that trade dependency and liberalisation may induce inflows of physical capital and technology to developing countries. This alternative explanation presupposes that increase in relative demand of skill labour will lead to increase in relative wage of this labour, which in turn aggravates wage inequality (ibid.: F78). Feenstra and Hanson (1997) also point to capital flow to the Southern countries as an explanatory factor for rising wage inequality in these countries. However, they do not link capital flow with technological change, rather with outsourcing practices by Northern multinationals. In the case of child labour, Heckscher-Ohlin and Stolper-Samuelson theorems are ambiguous on the direction of the impact of trade liberalisation on child labour since the increase in relative wage might also lead to the increase in the supply of child labour (Kis-Kastos and Sparrow 2011: 725). Furthermore, new trade theory’s explanation on the rising wage inequality is that trade liberalisation allows the flow of knowledge across countries, and that complementarity between the stock of knowledge and education can encourage the return to schooling, which in turn raises relative wage differentials across schooling groups (Rivera-Batiz 1993, as cited in Robbins 1994: 7–8). Additionally, new trade theorists also argue that trade liberalisation paves the way for larger markets, which in turn induces research and development (R&D), and a shift of employment towards innovative activities demanding higher education (Stokey 1994, as cited in Robbins and Gindling 1999: 141).

While many scholars have intended to explain increasing wage inequality as a result of trade openness with alternative factors as mentioned above, Stolper-Samuelson theorem could actually be employed to understand the different impact of trade on low- and high-skilled labour. As mentioned, Stolper-Samuelson theorem contends that the increase in the price of a certain good will lead to increase in return for factor endowment intensively used in the production of the good. This is because the abundant factor endowment becomes scarce under free trade. However, in the supply side, there is a structural oversupply of low-skilled labour and, thus, free trade would exacerbate this situation by creating a global pool of this type of labour (Sinaga 2)

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2 Similar to absolute advantage and comparative advantage theories, Heckscher-Ohlin and Stolper-Samuelson theorems also assume that trading countries use the same level of technology (Salvatore 2001: 141; Carbaugh 2004: 30).
and Scherrer 2012). It then enables free trade practitioners to offer goods at a cheaper price. According to Stolper-Samuelson theorem, this situation will result in a decrease in return (e.g., wage) for low-skilled labour.

Whereas neoclassical economists rest assured that the free market will naturally benefit everyone, including labour, students of neo-institutional economics contend that the role of the state is necessary in mitigating market failure that might occur at the expense of labour rights. The latter does not entirely reject the idea of relying on the market, but argues that legal, social and political institutions are necessary to avoid market failure (Sengenberger 2005: 9). Palley (2004) asserts that globalisation poses macro- and microeconomic problems, which may in turn hinder efficiency gain. In this case, as he argues, international labour standards not only bring about static efficiency through improvement of economic practice, but also dynamic efficiency through a shift towards a ‘high road’ path of development in the long-term.

The potential market failure is not only realised by advocates of neo-institutional economics, but also by students of international business. Scholars of international business are among those interested in understanding the activities of multinational enterprises (MNEs). In this attempt, international business scholars have developed theories of MNE activities, which intersect macroeconomic theory of international trade and microeconomic theory of the firm (Dunning and Lundan 2008: 95) In their view, market imperfection serves as one of the factors for foreign production. According to scholars of international business, standard trade theories assume: ‘atomistic competition, equality of production functions, the absence of risk and uncertainty and, implicitly at least, that technology is a free and instantaneously transferable good between firms and countries’ (ibid.: 97).

These assumptions show that standard trade theories have a lack of interest in discussing ownership or governance issues, including vertical integration and horizontal diversification of firms. There are two types of market imperfection (Dunning and Lundan 2008: 95). The first is structural market failure as a result of the possession of innovatory, cost, financial, or marketing advantages. The possession of these advantages enable firms to conduct ‘multiple and geographically dispersed value-added activities’. This type of market failure creates entry barriers and in turn allows firms to achieve monopoly or oligopoly rents. The second market imperfection is called intrinsic or endemic failure, which refers to the absence of intermediate product market at lower net cost compared to those that a hierarchy might achieve. This market imperfection is also called transactional market failure and results from three factors (ibid.: 98). First, both buyers and sellers have asymmetrical information when entering the market. Second, the market itself is unable to consider benefit and costs resulting from certain transaction but external to that transaction. Third,
transactional market failure also occurs when demand for particular products are not substantially large for firms to achieve economies of size, scope and geographical diversification. In other words, international economic activity is shaped by the structure of the market, transaction costs, and managerial strategy of firms. Recalling one of the arguments of new trade theory on intra-industry trade, international trade may also involve intra-firm trade. Transactional market failure provides insights for the development of global value chain approach (see Chapter 3 for more discussions on the approach). Based on these types of market failure, one could relate to the analysis on the link between modes of entry of firms and labour rights. Mosley (2008) argues that directly owned MNEs will positively affect labour rights, whereas offshoring activities (e.g. subcontracting) will undermine labour rights. She argues that directly owned MNEs tend to retain ‘best practices’ across their international business activities and attempt to attract skilled labour in the host countries. Meanwhile, organising foreign production through subcontracting activities is often due to cost reduction motive, which in turn could bring about adverse effects on labour rights.

To summarise the above theoretical discussions, standard trade theories argue that trade liberalisation will be beneficial for all actors involved, including workers. Nonetheless, the existing theories are sketchy in their arguments about what will possibly happen to workers in different types of sectors. Heckscher-Ohlin-Stolper-Samuelson theorems predict the different impact of trade liberalisation on low- and high-skilled labour in the North and South. Even this prediction was not confirmed in several cases, resulting to the evolvement of alternative theories that link trade with technological change. Furthermore, new trade theory attempts to explain intra-industry trade in terms of trade in differentiated products, something that is completely missing in Smith’s and Ricardo’s arguments. Meanwhile, the rise in intra-industry trade in terms of trade in components or semi-finished products has also been the interest of the chain research field, including the GPN approach. As will be explained in Chapter 3, chain research field offers a completely different take on how current global production and consumption is organised. Additionally, standard trade theories perceive labour as a factor of production and, thus, rules out the power of workers. This demonstrates a rather ‘static’ perspective of standard trade theories in understanding the relationship between economic actors, as the theories dismiss the dynamic power interplay between firms, workers, and the state. In this case, the GPN approach offers a powerful analysis, as it engages scrutiny that focuses on the sectoral level, and considers power relations between state, firm, and workers. Economic geographers argue that standard trade theory overlooks four aspects in order to rationalise the free trade doctrine (Sheppard 2012: 47-48). They are: (a) economic activities through commodity trade; (b) complex spatiality of commodity trade; (c) global flow and
connectivity involving FDI, international financial trade, migration, and movement of information and knowledge; and (d) horizontal connectivity consisting of complex multi-scalar territorial governance structures. These limits can be addressed by employing the GPN approach, as it focuses on a network of actors as well as socio-spatial contexts shaping the configuration of global production and consumption.

1.3. Research Questions

This book is intended to fill these gaps, in which it will examine the causal link between trade liberalisation and labour rights in capital- and labour-intensive sectors in Indonesia. The main question that leads this research is ‘how do labour- and capital-intensive sectors in Indonesia respond to competitive pressures brought about by trade liberalisation?’ Although the question appears to be explorative, the book will go beyond descriptive analysis, in which it will also compare similarities and differences on the responses of these two sectors and how the issue of power may play in such responses. Furthermore, within the leading research question one also needs to particularly ask: ‘what are the implications of such responses on labour rights in the two sectors?’ This question reflects the scope of the research, which goes beyond the inter-firm relationship as it embarks on the issue of labour relations. In this context, this book is interested in analysing how such implications shed light on power and labour relations in the sectors observed. Such being the case, the research will employ the GPN approach, which is not only interested in analysing relationship between firms, but also takes into account the social realms that shape, and have shaped, the inter-firm relationships. In this regard, the GPN perspective considers the role of non-firm actors and thus offers a fertile ground to analyse power relationship, particularly in labour relations. By employing qualitative methods, I draw empirical findings from the case study of the oil palm and automobile sectors in Indonesia.

This book is organised into seven chapters. Following the introductory chapter, Chapter 2 provides stylized facts on Indonesian oil palm plantation and automobile sectors. Chapter 3 discusses theoretical frameworks that provide analytical lenses on power and labour relations in global nexus of production, consumption, and distribution. In particular, the chapter focuses on the GPN approach. Grounding on the theoretical discussions, Chapter 3 establishes conceptualisations of power in GPN approach, which will be used in the analyses of findings in Chapters 5, 6 and 7. Chapter 4 deals with research methods of the book, started with identifying the GPN actors in Indonesian oil palm plantation and automobile sectors. Chapter 5 opens the analyses of findings in the book with examination of power relations in Indonesian oil palm GPN under trade liberalisation. Chapter 6 focuses on the analysis of power
relations in Indonesian automobile sector. Chapter 7 particularly looks at labour relations in the two sectors, followed by some conclusions and recommendations.

1.4. Summary of Findings

Analyses of findings reveal how trade liberalisation and the following competitive pressures are responded to by restructuring inter-firms relationships in the oil palm and automobile sectors. In the automobile sector, this implies the intensified role played by Japanese automobile manufacturers. These manufacturers also set regional strategies in Southeast Asian countries in order to reap the benefits from the liberalisation measures. In the oil palm plantation sector, such responses imply the entry of foreign plantation companies, mainly Malaysian- and Singaporean-based. The competitive pressures are also responded to by the sector with vertical integration of plantation companies in both downstream and upstream segments. Analyses of corporate power (i.e., financial, economic, technological power, access to land resources, discursive power) show how the possession and exercise of this power contribute to such restructuring.

This book shows the role of the state through the institutional arrangements that shape inter-firm relationships in the oil palm plantation and the automobile sectors. The state also operates with certain discourses in exercising its power. Prior to the liberalisation, the state functioned as a key driver of the development of both sectors. The downscaling of the state’s power following liberalisation is evident in both the automobile and oil palm plantation sectors. Nevertheless, the state continues to play an important role. The liberalisation measures are accompanied by the reconstruction of the power constellation between state and business actors. Examination of structural power shows the power struggle between market power of business actors and the power of the state. More importantly, the state’s remaining key role shows how the state is a relation of social forces, and how its action and inaction reflects the contradictions inherently embodying it.

Apart from the differences mentioned above, another important difference in the responses of both sectors is the increasingly important roles played by private voluntary governance and civil society organisations in the oil palm GPNs. Environmental degradation and land conflict issues have led to the rise of private voluntary governance in the oil palm plantation sector. Simultaneously, the more globally dispersed the oil palm production network, the higher the landscape of contentions, as shown by the increasing participation of civil society organisations, both at the national and international levels.
Analyses of findings demonstrate how workers in the automobile sector are better off compared to their counterparts in the oil palm plantation sector. Competitive pressures resulting from trade liberalisation, however, undermine the situations for workers in automobile supplier companies as shown by misuse of contract employment and rampant illegal outsourcing practices. In the meantime, the competitive pressures articulate with the existing labour regime on the oil palm plantations, maintaining the poor working conditions in this sector. The employment of unpaid family labour, which includes child labour, reflects how such situations in the oil palm plantations are even more intensified by the competitive pressures. The different situations in the oil palm plantation and automobile sectors can be explained by diverse labour control regimes, the changed magnitude of labour agency in terms of workers’ structural and associational power, as well as the dialectic interplay between the two. Analyses on labour control regime and labour agency establish the role of the state and firms in shaping labour relations.

All these discussions show how competitive pressures brought about by trade liberalisation have different impacts on labour rights in automobile and oil palm plantation sectors. While sectoral characteristics (e.g., capital- or labour-intensity, capital mobility, skill requirements) shape the diverse impacts, they are actually products of power interplay between the state, firms, and labour. As such, this thesis contributes to the recent academic literature on the link between trade liberalisation and labour rights by raising power issues into the analysis of the impacts of trade liberalisation.
Chapter 2: Indonesian Oil Palm and Automobile Sectors

Introducing the subjects of the case study, namely, the Indonesian oil palm plantation and the automobile sectors, this chapter highlights on their profiles as two important drivers of the country’s manufacturing and agricultural sectors.

2.1. Indonesian Oil Palm Plantation Sector

The oil palm sector has been one of the frontrunners in the Indonesian agricultural sector. Since 2007, Indonesia has been the largest producer of CPO (crude palm oil), overtaking Malaysia (Richter 2009: 3). For Indonesia, the sector is not only one of the major source of foreign reserves, but also the main instrument for poverty alleviation and rural economic development (Susila 2004; Zen et al. 2005; Rist et al. 2010), though the growth of the sector is hampered by environmental issues as well as problems concerning forceful land acquisition (Casson 1999; Colchester et al. 2006; Surambo 2010).

2.1.1. Historical Background

Oil palm trees (Elaeis) consist of two species—Elaeis guineensis, native to West Africa and Elaeis oleifera native to tropical Central and South America (Santosa 2008: 453). While Elaeis oleifera was previously not used for commercial purpose, Central and South America cultivated Elaeis guineensis for commercial purpose after it was introduced to Guatemala from Sierra Leone in 1920 (ibid.). Thereafter, Elaeis guineensis spread to countries with a tropical climate, including Indonesia.

Oil palm was introduced in Indonesia in 1848 when four seedlings were brought by the Dutch and planted in gardens at Buitenzorg (now Bogor, West Java; Santosa 2008: 454). This also marked the entry of oil palm to Southeast Asia (ibid.). At the time, the major driver of palm oil demand was the growing soap and margarine markets (Badrun 2010: 31–32). Later, the seedlings were cultivated in Deli (East Sumatra).

Owing to optimal soil, rainfall, and sunshine conditions in Southeast Asia, the trees grew faster and bore a richer fruit than their counterparts in Central and West Africa (ibid.). This success inspired traders to plant palm oil commercially in Southeast Asia, starting with Indonesia. In 1910, Hallet, a Belgian businessman, was interested in developing oil palm plantations in Sumatra (Manggabarani 2009: 9). The first commercial oil palm plantation was
established in Sumatra in 1911, particularly in Pulau Raja, Deli Muda, and Sungai Liput (Rasiah and Shahrin 2006: 21; Manggabarani: 9). Subsequently, British traders established oil palm plantations in Malaysia (Van Gelder 2004: 18). By 1919, the plantation in Sumatra covered an area of 6000ha which increased to 32,000ha by 1925 (Santosa 2008: 454). In the subsequent five years, the plantation area was doubled (ibid.). By 1939, the plantation areas covered around 100,000ha and were operated by 66 companies (Manggabarani 2009: 10). The plantations expanded with the support of Dutch capital, and the country became the world’s largest exporter by 1938 (Potter and Lee 1998, as cited in Rasiah and Shahrin 2006: 21). During the 1930s and 1940s, the palm oil produced was mainly used as a lubricant (Santosa 2008: 454). During the short period of Japanese colonialism in Indonesia, oil palm plantations did not attract much of their interest (Badrun 2010: 2). In fact, few plots were used to meet the increasing food demand during the time. After Indonesia gained its independence in 1945, the Dutch oil palm plantation system was abandoned, as plantation owners no longer had the support of the colonial government and labour migration reduced (Van Gelder 2004: 18). Moreover, President Sukarno passed an isolationist policy called Demokrasi Terpimpin (Guided Democracy), which discouraged the entry of foreign investments or foreign loans (ibid.). In 1957, the colonial plantations were nationalised under the control of Perusahaan Perkebunan Negara (the State Plantation Company; Santosa 2008: 454). Since then, oil palm plantation experienced declining production (Van Gelder 2004: 189).

During the 1960s, oil palm plantation covered around 100,000ha, concentrating over three provinces in Sumatra (Prasetyani and Miranti 2004; Goenadi et al. 2005). In the late 1970s, the number was estimated to be around 260,000ha (Badrun 2010: 2). As shown in Table 2.1, in 1997, the plantation area expanded to around 2.9 million ha and spread to 17 provinces in Sumatra, Kalimantan, and Sulawesi islands (Prasetyani and Miranti 2004; Goenadi et al. 2005). By that time, Indonesia was the world’s second largest exporter of CPO after Malaysia, contributing to around 30% of the global palm oil production (Rasiah and Shahrin 2006: 25). In 2008, around 7 million ha of land across 22 provinces were allocated for oil palm plantations (Badrun 2010: 2).

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3 The Agrarian Law adopted by the colonial government in 1870 enabled the establishment of state-owned plantation, as the law declared all land not under permanent cultivation as ‘waste land’ (Van Gelder 2004: 18). Thereafter, Dutch developers were also offered as much land as they needed on 75-year renewable leases at nominal rent (ibid.).
Table 2.1.: Oil Palm Plantation Areas (Hectares)

<table>
<thead>
<tr>
<th>Year</th>
<th>Smallholder plantations</th>
<th>Parastatal plantations</th>
<th>Private plantations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>-</td>
<td>65,573</td>
<td>40,235</td>
<td>105,808</td>
</tr>
<tr>
<td>1970</td>
<td>-</td>
<td>86,640</td>
<td>34,880</td>
<td>133,298</td>
</tr>
<tr>
<td>1980</td>
<td>6,175</td>
<td>199,538</td>
<td>88,847</td>
<td>294,460</td>
</tr>
<tr>
<td>1990</td>
<td>291,338</td>
<td>372,246</td>
<td>463,093</td>
<td>1,126,677</td>
</tr>
<tr>
<td>1995</td>
<td>658,536</td>
<td>404,732</td>
<td>961,718</td>
<td>2,024,986</td>
</tr>
<tr>
<td>1997</td>
<td>813,175</td>
<td>517,064</td>
<td>1,592,057</td>
<td>2,922,296</td>
</tr>
<tr>
<td>1998</td>
<td>890,506</td>
<td>556,640</td>
<td>2,113,050</td>
<td>3,560,196</td>
</tr>
<tr>
<td>1999</td>
<td>1,041,046</td>
<td>576,999</td>
<td>2,283,757</td>
<td>3,901,802</td>
</tr>
<tr>
<td>2000</td>
<td>1,166,758</td>
<td>588,125</td>
<td>2,403,194</td>
<td>4,158,077</td>
</tr>
<tr>
<td>2005</td>
<td>2,356,895</td>
<td>529,854</td>
<td>2,567,068</td>
<td>5,453,817</td>
</tr>
<tr>
<td>2010</td>
<td>3,387,257</td>
<td>631,520</td>
<td>4,366,617</td>
<td>8,385,394</td>
</tr>
<tr>
<td>2011*</td>
<td>3,620,096</td>
<td>636,713</td>
<td>4,651,590</td>
<td>8,908,399</td>
</tr>
</tbody>
</table>

Source: Directorate General of Estate Crops (2011: 3)
Note: *preliminary number

2.1.2. Profile of the Oil Palm Tree

A wet tropical climate with temperatures between 24°C and 32°C throughout the year favours the growth of oil palm, which means that the appropriate area for oil palm plantations are confined to around 10° north and south of the equator, at an altitude below 700m (Van Gelder 2004: 4). It takes three to four years for oil palm trees to mature. When the tree is mature, large bunches of palm fruits grow in the armpits of palm leaves each year, which are called fresh fruit bunches (FFBs) and can contain 1,000 to 3,000 individual fruits, together weighing 10–20 kg. Every oil palm tree produces several FFBs every year, with the fruit yield per hectare amounting to 10–35 ton. The oil palm fruit looks like a plum, with the outer fleshy mesocarp producing palm oil, and the kernel (which is inside the hard shell) being the source of palm kernel oil and palm kernel meal (ibid.). It is assumed that around US$ 2,500 to 3,500 per ha would be required to develop a new plantation, while a CPO mill with a capacity of 30 ton of FFB per hour could be built with US$ 5 million4 (ibid.: 22).

2.1.3. Why Oil Palm?

As mentioned, for Indonesia, oil palm is an important source of foreign reserves as well as a salient instrument for poverty alleviation. Apart from this, it is argued that estate crops, including oil palm, serve as a driver of economic

4 This figure will definitely be higher in present times.
growth and income distribution (Susila 2004). The oil palm sector proved to be resilient during the Asian financial crisis\(^5\), and played an important role during economic recovery (ibid.).

Compared to other oil crops (e.g., soybean, rapeseed, sunflower), palm oil has a competitive advantage in terms of production costs and yields (Mather 2008: 61; Susila 2004: 108). It is argued that palm oil requires four to ten times less land to produce the same volume of oil as soybeans (Teoh 2002, as cited in Mather 2008: 61). The production costs of vegetable oils are 1–2 times higher than those of palm oil (Manggabarani 2009: 34) (see Fig. 2.1) Moreover, palm oil producers are not vulnerable to consumers’ concern about genetically modified organisms, which is a potential case for soybeans (Mather 2008: 61). Additionally, compared to other oils, palm oil lacks trans fats (ibid.). However, there are some health concerns regarding palm oil consumption due to its high saturated fat content, which may contribute to cardiovascular disease (Manggabarani 2009: 6).

Figure 2.1: Production Costs of Vegetable Oils (US$/Ton)

![Figure 2.1: Production Costs of Vegetable Oils (US$/Ton)](source: Zimmer 2009, as cited in Dewan Minyak Sawit Indonesia (2010: 35))

Palm oil competitiveness can be seen through its increasing share in the world vegetable oil consumption ousting soybean oil which had dominated world’s vegetable oil consumption until 2007 (Manggabarani 2009: 33) (see Fig. 2.2).

\(^5\) The Asian financial crisis hit several East Asian and Southeast Asian countries, including Indonesia, in 1997. The crisis started in Thailand when the Thai government had to abandon its currency peg to USD (United States Dollar). It was followed by capital flight, which triggered international reaction. The crisis then spread, which saw the currencies of the affected countries plummeting.
Looking at the growth of sales in the foreign market, it is claimed that consumption of edible oil would increase in developing countries, which comprise more than 80% of the world population (Susila 1997, as cited in Susila 2004: 108). Before the Asian financial crisis, palm oil was estimated to replace soybean oil as the world’s most consumed oil by 2000 (Danareksa 1998, as cited in Casson 1999: 15). There is high demand for palm oil in Asian countries like China, Malaysia, and Pakistan, where the food is mostly fried or stir-fried (Casson 1999: 16). As palm oil serves as an important ingredient to produce cooking oil, there is a demand in the domestic market as well. About 60% of the CPO produced by the Indonesian oil palm sector is exported, and the rest is consumed locally (Prasetyani and Miranti 2004); it is also used in food processing and cosmetic industries to produce goods such as soap, margarine, etc.

In targeting market opportunities, Malaysia has been Indonesia’s strongest competitor (Susila 2004: 109), producing CPO amounting to 3.66 t/ha/annum, compared to Indonesia’s roughly 3.11 t/ha/annum (ibid.). This implies that the success of Indonesia to outperform Malaysia as the world’s largest CPO producer owes mainly to its vast land advantage. Compared with other producers, Indonesia has other competitive advantages in terms of low labour costs, abundance of undeveloped land, and favourable climate (Casson 1999: 15). It should be noted, however, that in Indonesia, the upstream sector is more dominant than the downstream one. This is unlike Malaysia, in which the downstream sector has been more developed (Susila 2004: 109).
2.1.4. Palm Oil Production and Domestic Consumption

In 2010, CPO production reached 22 million ton (see Table 2.2). Although Indonesia has been the world’s largest producer of CPO, according to the Roundtable of Sustainable Palm Oil (RSPO) label, it occupies the second place, next to Malaysia, in the production of CPO (Jatnika 2011).

Compared to large-scale plantations, the production of smallholding plantations is still relatively low due to low productivity. Some driving factors of the low productivity of smallholding plantations include the diminished ability of farmers to manage the plantations, use of illegitimate seeds, lack of access to fertilisers, as well as their improper use (Manggabarani 2009: 18).

### Table 2.2: Crude Palm Oil Production (Ton)

<table>
<thead>
<tr>
<th>Year</th>
<th>Smallholder plantations</th>
<th>Parastatal plantations</th>
<th>Private plantations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>-</td>
<td>108,514</td>
<td>59,155</td>
<td>167,669</td>
</tr>
<tr>
<td>1970</td>
<td>-</td>
<td>147,003</td>
<td>69,824</td>
<td>216,827</td>
</tr>
<tr>
<td>1980</td>
<td>1,045</td>
<td>533,399</td>
<td>265,616</td>
<td>800,060</td>
</tr>
<tr>
<td>1990</td>
<td>376,950</td>
<td>1,247,156</td>
<td>788,506</td>
<td>2,412,612</td>
</tr>
<tr>
<td>1995</td>
<td>1,001,443</td>
<td>1,613,848</td>
<td>1,864,379</td>
<td>4,479,670</td>
</tr>
<tr>
<td>1997</td>
<td>1,282,823</td>
<td>1,586,879</td>
<td>2,578,806</td>
<td>5,448,508</td>
</tr>
<tr>
<td>1998</td>
<td>1,344,569</td>
<td>1,501,747</td>
<td>3,804,099</td>
<td>6,590,315</td>
</tr>
<tr>
<td>1999</td>
<td>1,547,811</td>
<td>1,468,949</td>
<td>3,438,830</td>
<td>6,455,590</td>
</tr>
<tr>
<td>2000</td>
<td>1,905,653</td>
<td>1,460,954</td>
<td>3,633,901</td>
<td>7,000,508</td>
</tr>
<tr>
<td>2005</td>
<td>4,500,769</td>
<td>1,449,254</td>
<td>5,911,592</td>
<td>11,861,615</td>
</tr>
<tr>
<td>2010</td>
<td>8,458,709</td>
<td>1,890,503</td>
<td>11,608,907</td>
<td>21,958,120</td>
</tr>
<tr>
<td>2011*</td>
<td>8,627,883</td>
<td>1,937,765</td>
<td>11,942,362</td>
<td>22,508,011</td>
</tr>
</tbody>
</table>

Source: Directorate General of Estate Crops (2011: 3)
Note: *preliminary number

Within the domestic market, palm oil is mainly used as cooking oil. Around 70%–80% CPO domestic consumption goes to the cooking oil industry, while 10%–17% to oleo chemicals, and the rest to produce soap and margarine (Manggabarani 2009: 20). There are two interrelated reasons why cooking oil plays an important role (Manggabarani 2009: 2–3). First, it serves as a staple for the Indonesian people and is thus salient for the country’s food security. Second, the price of cooking oil influences the inflation rate.

As will be described in more detail in Chapter 5, Indonesia, since 2006, has oriented its energy policy towards the use of biofuel. As of 2008, the national production capacity of biodiesel amounted to 2.5 million per year (Manggabarani 2009: 21). Apart from boosting biodiesel production, Indonesia
has also eyed the oleo chemical industry in an attempt to develop the downstream industry.

2.1.5. Export Destinations

Indonesia has experienced a tremendous increase in its CPO exports since the 1990s, except in 1998 when the country was hit by the Asian financial crisis (Prasetyani and Miranti 2004; see also Table 2.3). The major export destinations are India, Malaysia, the Netherlands, Singapore, Germany, and Italy. As shown by Figures 2.3 and 2.4, India and Malaysia were Indonesia’s top two destinations of CPO exports between 2004 and 2006. As exporter to India, Europe and China, Malaysia is indeed Indonesia’s biggest competitor (Goenadi et al. 2005). However, Malaysia at the same time, also imports CPO from Indonesia. This is because, unlike Indonesia, the downstream industry of the oil palm sector in Malaysia has been growing well. Indeed, in the downstream industry, characterised with high technology and capital, Indonesia has lagged behind Malaysia. Nonetheless, Indonesia has the advantage to focus on the upstream part, owing to the availability of its vast land area and cheap labour (Goenadi et al. 2005).

### Table 2.3.: Crude Palm Oil Export (Ton)

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>502,902</td>
</tr>
<tr>
<td>1985</td>
<td>518,760</td>
</tr>
<tr>
<td>1990</td>
<td>881,991</td>
</tr>
<tr>
<td>1995</td>
<td>1,004,403</td>
</tr>
<tr>
<td>1997</td>
<td>1,448,362</td>
</tr>
<tr>
<td>1998</td>
<td>403,843</td>
</tr>
<tr>
<td>1999</td>
<td>865,427</td>
</tr>
<tr>
<td>2000</td>
<td>1,817,664</td>
</tr>
<tr>
<td>2005</td>
<td>4,564,788</td>
</tr>
<tr>
<td>2007</td>
<td>5,701,286</td>
</tr>
<tr>
<td>2009</td>
<td>11,119,997</td>
</tr>
<tr>
<td>2010</td>
<td>11,158,124</td>
</tr>
</tbody>
</table>

Source: Directorate General of Estate Crops (2011: 5)
Apart from being a market of Indonesian palm oil, the Netherlands re-exports Indonesian palm oil to the European Union (EU) market (Van Gelder 2004: 47). Besides the Netherlands, other important markets of Indonesian palm oil are Germany and Italy. Compared to Malaysia, Indonesia has been exporting more palm kernel oil (PKO) to the EU (ibid.: 48). This is mostly because Malaysia processes PKO domestically (ibid.). In the EU, palm oil is the second most
consumed edible oil, following rapeseed oil (ibid.: 49). Additionally, Malaysia serves as the largest exporter of palm kernel meal (PKM) to the EU (ibid.).

2.1.6. Employment in the Oil Palm Plantation Sector

The oil palm plantation sector is considered relatively labour-intensive. While oil palm plantations have a long history dating back to the colonial period, mechanisation has taken place partially, and many activities in the plantation are still dependent on human labour (Pahan 2011: 34). Though on-farm workers are not required to possess skills and most activities (e.g., harvesting and maintenance activities) are learnt by them during work, a foreman is expected to have at least a high school or vocational school background (Badrun 2010: 158); however, in many cases, the position is filled by experienced workers regardless of his or her educational background.

This low skill requirement is perceived as an opportunity for job creation in the plantation sector. Directorate General of Estate Crops assumes the ratio of labour absorption in the oil palm plantation sector as 0.5/hectare. Table 2.4 shows the number of workers employed in the sector. As of 2010, 1,751,794 and 1,623,603 labourers were employed in smallholder plantations and large-scale plantations (both parastatal and private), respectively (Directorate General of Estate Crops 2011).

Table 2.4: Labour Absorption in Oil Palm Plantation Sector ('000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Smallholder plantations</th>
<th>Parastatal-owned plantations</th>
<th>Private plantations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>3</td>
<td>100</td>
<td>42</td>
<td>145</td>
</tr>
<tr>
<td>1990</td>
<td>146</td>
<td>186</td>
<td>232</td>
<td>564</td>
</tr>
<tr>
<td>2000</td>
<td>584</td>
<td>294</td>
<td>1,202</td>
<td>2,080</td>
</tr>
<tr>
<td>2001</td>
<td>781</td>
<td>305</td>
<td>1,271</td>
<td>2,357</td>
</tr>
<tr>
<td>2002</td>
<td>904</td>
<td>316</td>
<td>1,314</td>
<td>2,534</td>
</tr>
<tr>
<td>2003</td>
<td>927</td>
<td>332</td>
<td>1,383</td>
<td>2,643</td>
</tr>
<tr>
<td>2004</td>
<td>1,110</td>
<td>303</td>
<td>1,230</td>
<td>2,643</td>
</tr>
<tr>
<td>2005</td>
<td>1,178</td>
<td>265</td>
<td>1,284</td>
<td>2,727</td>
</tr>
<tr>
<td>2006</td>
<td>1,318</td>
<td>349</td>
<td>1,371</td>
<td>3,038</td>
</tr>
<tr>
<td>%/year</td>
<td>25.9</td>
<td>5.0</td>
<td>15.4</td>
<td>12.6</td>
</tr>
</tbody>
</table>

Source: Direktorat Jenderal Perkebunan (2007: 22)

2.2. Indonesian Automobile Sector

The automobile sector is one of Indonesia’s designated strategic industries (Hidayat and Widarti 2005: 44). Indonesia is also considered as one of East
Asia’s leading producers of auto parts (Doner et al. 2006: 5). In the past, though the automobile sector, being highly protected, was largely inefficient (Hidayat and Widarti 2005: 46; Doner et al. 2006: 57–8), it experienced marginal growth and increase in technological capacity (Aswicahyono, Anas, and Rizal 1999: 1). The financial crisis in 1998 however, exacerbated its inefficiency and marred whatever little growth the industry had made prior to the crisis. However, a rapidly expanding domestic market indicated further opportunity for the industry (ibid.). The move towards a liberalisation policy which had started in 1995 (see Chapter 5), gained momentum post 1998 crisis thus opening up possibilities of growth for the automobile sector as well.

2.2.1. Historical Background

The establishment of a General Motors assembly plant in Tanjung Priok, Jakarta, Indonesia in 1928 marked the beginning of the development of the automobile sector in the country (Aswicahyono 2000: 214). At that time, Indonesia was still a Dutch colony. However, owing to the Great Depression, war, the struggle for independence, and an uncertain post-dependence business climate (ibid.) in the subsequent 40 years, the sector enjoyed little growth. Additionally, the demand for passenger cars were limited at that time, only servicing Dutch colonial officers, foreign nationals, and few wealthy locals (Pasha and Setiati 2011). After independence, particularly in the 1950s, the plant was nationalised under Sukarno administration’s Program Benteng (Hale 2001: 630). In the beginning of the 1960s, the program remained stagnant due to foreign exchange shortage (ibid.). Development of the automobile sector began in 1964 when semi-knocked down (SKD) vehicles were imported and assembled locally by companies such as Kramayudha and Djakarta Motor of the Hasjim Ning Group (ibid.). In fact, in the late 1960s, the sector received a booster under the New Order government, which considered it to be a strategic sector and attempted to develop it by implementing import substitution policy (Aswicahyono et al. 1999: 6; Hale 2001: 630).

2.2.2. Why Automobile?

As mentioned, since the late 1960s the Indonesian government has considered the automobile sector an important sector for the country. There are several reasons for this consideration (Tang 1988: 25-26; Pasha and Setiati 2011). First, the automobile sector produces transportation vehicles, which are inevitably needed by Indonesian people. The sector obviously contributes significantly to the transportation of materials and products in industrial as well as rural areas. Second, developing the automobile sector is also intended to attract foreign investment, which subsequently provides job opportunities for Indonesian people. Third, the automobile sector development is also expected to achieve
some fundamental aims such as modern technology transfer to Indonesia; sectoral and regional development, as well as economic growth; increasing use of national resources, products, as well as services; and foreign exchange conservation.

2.2.3. The Automobile Sector’s Performance

Indonesia serves as the third largest auto market in ASEAN, behind Thailand and Malaysia (Pasha and Setiati 2011). Automobile production increased from 10,000 units in the 1970s to 70,000 in 1976, reached over 200,000 in 1981, and approximately 300,000 in 1990 (Doner et al. 2006: 52). While the automotive sector enjoyed 20% annual growth between 1994 and 1997, it was subsequently hit by the Asian financial crisis (Setiono 2002). Table 2.5 shows increased production and sales volume between 1996 and 2013 (ibid.). As illustrated, both production and sales volume dropped significantly during the Asian crisis. In 1999, the sector showed improvement, although the figures did not reach the same level as prior to the crisis. Between 2000 and 2005, production and sales increased following market liberalisation in the automobile sector (Gaikindo 2013). In 2006, these numbers fell, partly due to government policy on increased fuel prices (ibid.). The sector seemed to be resilient during the global financial crisis as production and sales figures hit a new record in 2008. There was a slump in 2009, but the figures consecutively hit new records between 2010 and 2013.

Table 2.5.: Automobile Production and Domestic Sales Volume 1996-2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>325,494</td>
<td>332,035</td>
</tr>
<tr>
<td>1997</td>
<td>389,900</td>
<td>383,605</td>
</tr>
<tr>
<td>1998</td>
<td>58,061</td>
<td>59,634</td>
</tr>
<tr>
<td>1999</td>
<td>123,236</td>
<td>129,844</td>
</tr>
<tr>
<td>2000</td>
<td>292,710</td>
<td>300,965</td>
</tr>
<tr>
<td>2001</td>
<td>279,257</td>
<td>299,599</td>
</tr>
<tr>
<td>2002</td>
<td>299,257</td>
<td>317,748</td>
</tr>
<tr>
<td>2003</td>
<td>322,044</td>
<td>354,629</td>
</tr>
<tr>
<td>2004</td>
<td>422,099</td>
<td>483,148</td>
</tr>
<tr>
<td>2005</td>
<td>500,710</td>
<td>533,917</td>
</tr>
</tbody>
</table>

6 The production figure for 1999 is different from the figure shown in Table 2.5. The official figure is usually provided by Gaikindo (the Indonesian Automobile Producers Association). However, Gaikindo does not provide figures (both production and domestic sales) for the period prior to 1999.
Table 2.6 illustrates the production and domestic sales trends of the three largest auto-producing countries in Southeast Asia. Within Southeast Asia, Indonesian automobile production and domestic sales surpassed that of its Malaysian counterpart, while Thailand remains the largest auto producer and market. Despite the slump in 2009, market liberalisation seems to have boosted the performance of the automobile sector, as seen in the growth of production and sales between 1999 and 2013. Similar to Thailand, the Indonesian domestic automobile market delivered 30% of Association of Southeast Asian Nations (ASEAN) domestic auto sales in 2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>296,008</td>
<td>318,904</td>
</tr>
<tr>
<td>2007</td>
<td>411,638</td>
<td>433,341</td>
</tr>
<tr>
<td>2008</td>
<td>600,628</td>
<td>603,774</td>
</tr>
<tr>
<td>2009</td>
<td>464,816</td>
<td>486,088</td>
</tr>
<tr>
<td>2010</td>
<td>702,508</td>
<td>764,710</td>
</tr>
<tr>
<td>2011</td>
<td>837,948</td>
<td>894,164</td>
</tr>
<tr>
<td>2012</td>
<td>1,065,557</td>
<td>1,116,230</td>
</tr>
<tr>
<td>2013</td>
<td>1,208,211</td>
<td>1,218,900</td>
</tr>
</tbody>
</table>

Note: * Harmonised system code

<table>
<thead>
<tr>
<th>Countries</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>Production (unit)</td>
<td>89,007</td>
<td>254,090</td>
</tr>
<tr>
<td></td>
<td>% of world production</td>
<td>0.16</td>
<td>0.45</td>
</tr>
<tr>
<td>2000</td>
<td>Production (unit)</td>
<td>292,710</td>
<td>282,830</td>
</tr>
<tr>
<td></td>
<td>% of world production</td>
<td>0.5</td>
<td>0.48</td>
</tr>
<tr>
<td>2005</td>
<td>Production (unit)</td>
<td>500,710</td>
<td>563,408</td>
</tr>
<tr>
<td></td>
<td>% of world production</td>
<td>0.75</td>
<td>0.85</td>
</tr>
<tr>
<td></td>
<td>Sales</td>
<td>533,917</td>
<td>552,316</td>
</tr>
<tr>
<td></td>
<td>% of total ASEAN market</td>
<td>26.0</td>
<td>26.9</td>
</tr>
<tr>
<td>2008</td>
<td>Production (unit)</td>
<td>600,628</td>
<td>530,810</td>
</tr>
<tr>
<td></td>
<td>% of world production</td>
<td>0.85</td>
<td>0.75</td>
</tr>
<tr>
<td></td>
<td>Sales</td>
<td>603,774</td>
<td>548,115</td>
</tr>
<tr>
<td>Countries</td>
<td>Indonesia</td>
<td>Malaysia</td>
<td>Thailand</td>
</tr>
<tr>
<td>-----------</td>
<td>-----------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td>% of total ASEAN market</td>
<td>28.6</td>
<td>25.9</td>
<td>29.1</td>
</tr>
<tr>
<td>2009</td>
<td>Production (unit)</td>
<td>464,816</td>
<td>489,269</td>
</tr>
<tr>
<td>% of world production</td>
<td>0.75</td>
<td>0.79</td>
<td>1.62</td>
</tr>
<tr>
<td>Sales</td>
<td>483,548</td>
<td>536,905</td>
<td>548,871</td>
</tr>
<tr>
<td>% of total ASEAN market</td>
<td>25.4</td>
<td>28.2</td>
<td>28.9</td>
</tr>
<tr>
<td>2010</td>
<td>Production (unit)</td>
<td>702,508</td>
<td>567,715</td>
</tr>
<tr>
<td>% of world production</td>
<td>0.90</td>
<td>0.73</td>
<td>2.12</td>
</tr>
<tr>
<td>Sales</td>
<td>76,710</td>
<td>605,156</td>
<td>800,357</td>
</tr>
<tr>
<td>% of total ASEAN market</td>
<td>30.6</td>
<td>24.2</td>
<td>32.0</td>
</tr>
<tr>
<td>2012</td>
<td>Production (unit)</td>
<td>1,065,557</td>
<td>569,520</td>
</tr>
<tr>
<td>%</td>
<td>1.26</td>
<td>0.68</td>
<td>2.90</td>
</tr>
<tr>
<td>Sales</td>
<td>1,116,230</td>
<td>627,753</td>
<td>1,423,580</td>
</tr>
<tr>
<td>% of total ASEAN market</td>
<td>32</td>
<td>18</td>
<td>41</td>
</tr>
<tr>
<td>2013</td>
<td>Production (unit)</td>
<td>1,208,211</td>
<td>596,170</td>
</tr>
<tr>
<td>% of world production</td>
<td>1.38</td>
<td>0.68</td>
<td>2.90</td>
</tr>
<tr>
<td>Sales</td>
<td>1,218,900</td>
<td>655,793</td>
<td>1,330,672</td>
</tr>
<tr>
<td>% of total ASEAN market</td>
<td>34</td>
<td>18</td>
<td>37</td>
</tr>
</tbody>
</table>

Source: OICA

Increasing production also reflects the rising number of manufacturing plants. Around 260 manufacturing plants were recorded in 1995, and this figure increased to around 300 in 2007 (Aswicahyono and Kartika 2010). This increase is particularly significant in the number of component manufacturing plants.

Automobile manufacturers initially targeted the domestic market. Nonetheless, the wave of liberalisation in the automobile sector opened up opportunities for manufacturers to target the international market, although the major target remains the domestic market (Aswicahyono and Kartika 2010). As shown in Table 2.7, imports of CKD (Completely Knocked Down) cars\(^7\) were significant prior to the 1998 financial crisis, and the figures decreased afterwards. This is

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\(^7\) CKD cars refer to cars that are imported in parts, and would be assembled in the country of destination.
due to the high import tariffs for CBU (Completely Built Up) cars before the sector was liberalised. This also indicates that the automobile sector was mainly involved with assembling activities during that time.

Table 2.7.: Indonesia Automobile Exports and Imports (USD)

<table>
<thead>
<tr>
<th>Year</th>
<th>CBU Export</th>
<th>CBU Import</th>
<th>CKD Export</th>
<th>CKD Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>33,679,886</td>
<td>402,577,872</td>
<td>1,562,038</td>
<td>124,392,169</td>
</tr>
<tr>
<td>1997</td>
<td>33,785,886</td>
<td>398,401,166</td>
<td>3,847,387</td>
<td>127,038,893</td>
</tr>
<tr>
<td>1998</td>
<td>34,344,144</td>
<td>186,288,242</td>
<td>6,539,325</td>
<td>77,430,550</td>
</tr>
<tr>
<td>1999</td>
<td>54,030,186</td>
<td>206,295,619</td>
<td>10,579,623</td>
<td>29,461,327</td>
</tr>
<tr>
<td>2000*</td>
<td>47,952,511</td>
<td>111,744,801</td>
<td>875,721</td>
<td>29,011,404</td>
</tr>
</tbody>
</table>

Source: Setiono (2002)

Note: * Number for January-September

In 2004, around 483,000 cars were sold, increasing 36% from 2003 (Nag et al. 2007: 24). In September 2008, around 454,000 cars were sold (Pasha and Setiati 2011). Car production increased between 2003 and 2005. However, the production declined from 500,710 units in 2005 to 296,008 units in 2006 (ibid.). Despite this significant improvement, the Indonesian automobile market is considered to be relatively low in terms of market penetration for car sales, with one in every 35 people owning a car, compared to one in 14 in Thailand, and one in seven in Malaysia (Cipta 2011: 4). Fig. 2.5 demonstrates car sales in ASEAN.

Figure 2.5.: Car Sales in ASEAN (*000)

Source: ASEAN Automotive Federation, as cited in Cipta (2011)

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8 CBU cars refer to cars that are imported in a completed form.
As mentioned, Japanese car companies dominate 90% of the market, while the rest is shared between car companies of South Korea, the US, and Western Europe (Cipta 2011). It also reflects that the automobile market in Indonesia has an oligopolistic market, although there is some room for competition (Cipta 2011: 1). Indeed, ‘the geographical spread of sales and output in developing countries has not been accompanied by a spread of ownership in assembly sector’ (Humphrey and Memedovic 2003: 5). Fig. 2.6 illustrates recent figures on car sales by brands.

**Figure 2.6.: Car Sales by Brands (%)**

![Car Sales by Brands Chart]

Source: Gaikindo, as cited in Cipta (2011)

The domestic market is dominated by commercial (particularly light commercial vehicles) and Multi-Purpose Vehicle (MPV) cars due to progressive taxes on passenger cars as well as utility vehicles adjusted for local usage (Cipta 2011; Doner et al. 2006: 53, 62). Fig. 2.7 shows recent figures on the local automobile market by category. As will be mentioned, protectionist policies in the past contributed to the development of the component sector. In particular, this has helped Indonesia to specialise in components used in commercial vehicles and MPVs (Nag et al. 2007: 33). Furthermore, Indonesia also imports components and vehicles from Germany, China, USA, and South Korea (ibid.).
Between 1967 and 1997, the sector enjoyed rapid growth of output (Aswicahyono 2000: 210). During 1975–97, the sector’s share in manufacturing output (excluding the oil processing industry and firms with fewer than 20 employees) increased from 1.6% to 4.6%, while employment share remained constant, indicating the sector’s increasing capital intensity (ibid.: 216). Despite this rapid growth, high protection and intense government intervention, exacerbated by an environment where political-bureaucratic connections became the most important player for commercial success, a fragmented industrial structure emerged in which only a few firms reached minimum efficient scale (ibid.).

The Indonesian government imposed several policies in the 1970s (more details are discussed in Chapter 6), including the import ban of CBU cars, as well as high import duties for not using domestic components; a similar policy was also enacted in the 1990s. These government interventions resulted in the growth of the component sector (Nag et al. 2007: 25; Rasiah 2004: 9). It is argued that the deletion programme partly contributed to the development of the automotive component sector, particularly in the four-wheel and two-wheel motor vehicle (Sato 1998, as cited in Tarmidi 2003: 99). Indeed, local content requirements serve as an important policy to encourage local production (Humphrey and Memedovic 2003: 19). In 1975, both the assembly and component sectors demonstrated similar factor proportion to manufacturing as a whole (Aswicahyono 2000: 234). After 1975, both sectors became relatively and absolutely capital intensive (ibid.). By the 1990s, the assembly sector grew significantly and became more capital-intensive, while the components sector tended to be more labour-intensive in nature. In addition, component companies (first tier) have been able to produce quality products to support Indonesia as a
production base for several Japanese automobile companies, including Toyota and Suzuki (Pasha and Setiati 2011).

It is worth noting that the component sector that experienced rapid development from protectionist policies was mainly ancillary (Nag et al. 2007: 26). The majority of the components with high technology content as well as those which required precision in their production were imported (ibid.; Hale 2001: 630). Presently, domestic firms focus on producing low value, relatively simple and labour/natural-intensive components, such as tyres, electrical equipment, wires, and conductors (ibid.). For example, Japanese-affiliated car companies in Indonesia import components from either Japan or Thailand (ibid.: 33). Another argument claims that development of local component is actually slow in pace, and certain types of vehicle, such as sedans, contain little local content (Hale 2001: 631). Tarmidi (2003: 96) argues that while Indonesian automobile component manufacturers were much more numerous (223) than those in Philippines (154) in 1996, they were still far behind those in Thailand (488) and Malaysia (515). Studies reveal that the programme to increase the local production of compulsory machinery failed, mainly because small and medium-scale companies experienced problems relating to a lack of technology, capital, skills in technical areas, and marketing managements (Sato 2001, as cited in Tarmidi 2003: 99).

Due to protective policies in the past as well as demand factors, a lot of brands and models in the automobile sector in Indonesia experienced significant fragmentation (Nag et al. 2007: 26; Aswicahyono 2000: 226). This prevented companies in the sector from achieving sufficient economies of scale (ibid.; Doner et al. 2006: 57). It is also argued that protectionist policy in the past discouraged the sector to achieve efficiency (ibid.: 58). Such policy provided vast opportunities for ‘clientelist rent seeking’ (ibid.: 59).

The growth of the component sector resulting from the protectionist policies in the past allows Indonesia to supply components to many ASEAN members and Japan (Nag et al. 2007). This growth of the component sector attracts Japanese companies to invest more in Indonesia in this particular segment of the automobile sector. In the meantime, Thailand and Japan were Indonesia’s main sources of automobile imports in 2004. The majority of the cars were imported from Thailand, whereas most of the components were imported from Japan. Large car imports from Thailand might show that the privileges offered by the ASEAN Free Trade Agreement (AFTA) were used. Apart from Malaysia and

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9 AFTA was agreed upon by ASEAN members in 1992. It includes the application of the Common Effective Preferential Tariff (CEPT). Under this scheme, the intra-regional tariffs would be brought down to between 0% and 5% by 2002 for ASEAN-6 members (i.e. Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand), while the rest of the members would have to apply at different paces (i.e. 2006 for Viet Nam, 2008 for Lao People’s Democratic Republic and Myanmar, and 2010 for Cambodia).
the Philippines, Indonesia has indeed become an important market for Thailand both for vehicles and components (ibid.: 36). Meanwhile, major imports of components from Japan might refer to imports of components with high technology, which, as discussed earlier, is something that Indonesia’s component sector still lags behind.

AFTA provides opportunities for ASEAN member countries to enhance intra-ASEAN trade, particularly in the automobile sector. In this context, producers may source different components within ASEAN member countries and assemble them in favourable locations within ASEAN member countries for better distribution channels (Nag et al. 2007: 37). This reflects the increasing trend towards regionalisation of automobile production networks (Dicken 2003: 35). It should be noted that falling prices as a result of liberalisation are probably limited due to the oligopolistic nature of the automobile sector (Aswicahyono 2000: 236).

As mentioned, Indonesia has become a niche market for commercial vehicles and MPVs. The opening up of the regional market under AFTA provides incentive for Japanese automakers to invest in these segments of vehicle manufacturing in order to supply the demand to other ASEAN member markets (Nag et al. 2007: 33). This also reflects how free trade agreement (FTA) enhances the global production system in the automobile sector in the region (Pasha and Setiati 2011).

2.2.4. Employment in the Automobile Sector

In 2000, around 40,254 persons were employed in the car and motorcycles sectors (Setiono 2002). In 2010, employment in car production reached 72,000, with half of this number being employed by second-tier suppliers (Ministry of Industry, 2012).

This sector is skill-intensive. A study covering metal workers in Indonesia shows that 90% of the respondents in West Java—where the majority of automobile factories are located—have high school and/or vocational school background (Tjandraningsih et al. 2010). This is an unsurprising figure given that the study mainly captures component factories. Nonetheless, even in the assembling factories, this might also be a common case. It seems that from the firm’s perspective, the level of educational background does not necessarily correlate to skill level.

In general, firms would require fresh entrants to initially go through one to three years’ contract-based work to learn and gather the required skills (see Chapter 7 for more discussions). This period can be perceived as a probational period, something which, by comparison, generally lasts for three months in a white collar job. A study on the contribution of workers on Toyota Production System
in Toyota Astra Motor Indonesia (TAM)\textsuperscript{10} (Nakamura 2004: 212) shows that the newly hired operators, who are mainly high school graduates, received one week of classroom training, through which they learned about the company, TAM culture, and the just-in-time system.\textsuperscript{11} Afterwards, these operators were assigned to departments in plants and given on-the-job instructions by group leaders for three months. Here, they were essentially entering the on-the-job training programme. After this initial training, they are expected to learn the skills through daily activities during the on-the-job training.

According to Koike (2004: 145), workers who have just started their careers in car manufacturers belong to Level 1 workers in the Japanese human resources development system. In this level, workers are expected to carry out one usual operation job simply and without delay. After two or three years of experience, workers enter into Level 2, in which they are expected to carry out two or three different jobs as well as identify defects. Level 3 workers are expected to have broad experiences in most jobs on the shop floor, and not only identify defects, but also understand the causes. As for Level 4 workers, apart from possessing the abilities of the Level 3 workers, they are also expected to design new operational procedures as well as decide about equipment deployment. In this regard, levels 3 and 4 workers are expected to possess and employ intellectual skills. This whole process would take around 10–15 years of on-the-job training (ibid.: 149). Apart from engineers and line managers, Nakamura (2004: 203) argues that workers with intellectual skills led by foremen also play an important role in the Toyota Production System (TPS), which is a manufacturing system with flexible levels, widely used in Japanese-based car manufacturers. Despite following standard worksheets, operators on the shop floors may not assemble the same parts in the same way on every job. Thus, workers have to focus on the tasks at hand, despite the repetitive nature of jobs (ibid.: 205). Multifunctional operators are necessary for the flexible, levelled production system, and the skill to carry multifunctional tasks (e.g., doing more than one assembly job) is acquired through job rotation (ibid.: 205-206).

As shown in Table 2.8, the value added per worker’s employment was higher in assembly than in the component industry in Indonesia. As demonstrated in Table 2.8, relative wages have declined between 1974 and 1996, despite the increasing productivity per worker over that period. However, this should be taken carefully, as the figure for relative wage is a weighted average between assembly and component industries. In this case, the declining relative wage

\textsuperscript{10} The study was undertaken before the company split up into Toyota Motor Manufacturing Indonesia (TMMIN) and Toyota Astra Motor (TAM) in 2003. TMMIN has since then focused on the manufacturing operations, while TAM has been devoted to the marketing activities.

\textsuperscript{11} Just-in-time system implies a production system that produces a correct component, at the correct time, and with the correct amount (Liker 2006: 40).
might be the result of the expansion of the more labour-intensive component sector (Aswicahyono 2000: 235).

Table 2.8.: Factor Proportions in the Auto Industry, 1975-1996\(^a\) (%)  

<table>
<thead>
<tr>
<th></th>
<th>Value Added/Employment</th>
<th>Wages/Employment(^b)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assembly</td>
<td>Components</td>
</tr>
<tr>
<td>1975</td>
<td>116</td>
<td>124</td>
</tr>
<tr>
<td>1985</td>
<td>212</td>
<td>192</td>
</tr>
<tr>
<td>1990</td>
<td>947</td>
<td>262</td>
</tr>
<tr>
<td>1996</td>
<td>785</td>
<td>237</td>
</tr>
</tbody>
</table>

Source: Aswicahyono (2000: 236)  
Notes: \(^a\)The data are ratios, expressed as percentage of the ratio for all non-oil manufacturing  
\(^b\)The data are weighted average of the assembly and component sectors  
\(^c\)1996 data for wages/employment refer to 1995

Summary:  
This chapter provides stylised facts on the automobile and the oil palm plantation sectors. Facts and figures show how both are important sectors for the Indonesian economy. While the development of the automobile sector has aimed at establishing a sector with modern technology with subsequent employment opportunities, the driver of the oil palm plantations development are rural development and poverty alleviation. In terms of orientation to foreign markets, the development of the oil palm plantation sector has allowed the country to be the world’s largest producer of CPO, whereas the automobile sector has increasingly been eyeing the ASEAN market. The chapter also describes the employment pictures in both sectors. In contrast to the skill-intensive character of the automobile industry, the oil palm plantation sector is a relatively labour-intensive and generally has low skill requirement.
Chapter 3: Theoretical Frameworks

This chapter discusses the theoretical frameworks that are employed in this thesis. It particularly elaborates on one strand of the chain frameworks, namely, the Global Production Network (GPN) approach. As this book focuses on labour issues, this chapter also explains theoretical debates related to sources of workers’ power, labour agency, and labour regime. It constructs how the two bodies of theoretical framework (i.e. the GPN approach and the literature on sources of workers’ power) may have a dialogue with each other. Based on this ground, this chapter concludes with operationalisation of power, which is discussed in detail in Chapters 5, 6 and 7.

3.1. Chain Frameworks and the Global Production Network Approach

The increasing intra-industry trade has contributed to the rising interest on global value chain (GVC) discussions. It is held that while previous trade interaction occurred in arm’s length relationship and/or trading final goods, current trends feature trade in sub-components or intermediate goods (Kaplinsky 2000). Gibbon et al. (2008: 316) contrasted GVC analysis with two other perspectives in this field, namely, mainstream international political economy (IPE) and radical political economy. They argue that mainstream IPE addresses the problem of global economic governance in terms of institutions (e.g., WTO, IFIs, G-8) and mainly focuses on how powerful and effective they are vis-à-vis regional and national governance systems. These institutions are also analysed by radical political economy. The latter, however, considers the relation of these institutions with global capital, particularly trans-national corporations (TNCs), and other actors (e.g., World Economic Forum). These two perspectives are contending with each other on ‘how effective global governance is, in whose interest and by what means governance is exercised and with what implications for whom’ (ibid.). In contrast to these two perspectives, GVC analysis puts emphasis on firm-centred conceptualisation of governance. As will be explained subsequently, GVC analysis emanates from world systems theory (particularly its view on commodity chain), yet moves away from this perspective. The analysis highlights the role of the lead firm as the key actor in a particular system in global economic governance (ibid.). The discussion on trade liberalisation in this text also illustrates the different angles taken by GVC analysis and neoclassical economics.

3.1.1. Genealogy of Chain Frameworks

Value chain refers to a range of activities required to bring a product or service from conception, pass it through intermediary production process, deliver it to
the final consumers, and arrange its final disposal after use (Kaplinsky 2000: 8). There are voluminous studies focusing on the inter-firm relationships thus developed while establishing a sequential process from conception, production, then to distribution of goods. Sometimes they use different terms, such as global value chain, global commodity chain, global supply chain, or global production network. For example, value chain analysis was employed in French planning literature in the form of filière. This concept is described as ‘a system of agents producing and distributing goods and services for the satisfaction of final demand’ (Henderson et al. 2002: 439). Michael Porter employs value chain analysis as an analytical tool in which he complements value chain concepts with value system (Kaplinsky 2000: 9). Studies in the value chain research field also embrace multi-disciplinary literature, from economic development to business literature. All this poses a question of whether the existing literatures have similar units of analysis or approach.

Bair (2009) classifies three approaches on global chain studies, namely: (1) the world-systems tradition of macro- and long-range historical analysis of commodity chains; (2) global commodity chains (GCC) developed by Gereffi and others as an interdisciplinary field of organisational sociology and comparative development studies; (3) global value chain (GVC) approach, which serves as the latest variant drawing from global commodity chain analysis. For Bair (2009: 2), the numerous studies in global chain field can be classified along these approaches. She also argues that the latter two approaches (particularly GVC approach) concentrate their analytical approaches towards the meso-level of sectoral logistics and micro-level objective of industrial upgrading, moving away from the macro and holistic perspective of world-systems approach (Bair 2005). In this attempt, Bair draws a genealogy of the global chain studies, which will be described below (see also Table 3.1. for summary).

The first literature in the field of global chain was written by Hopkins and Wallerstein in the late 1980s. They introduced the term commodity chain as ‘a network of labor and production process whose end result is a finished commodity’ (1986: 159, as cited in Hopkins and Wallerstein 1999: 17). This analysis of commodity chain is mainly inspired by world system theory, in the sense that it is argued that the flow of the commodity chains is from peripheral to core zones (ibid.: 17). In a highly simplified tenet, peripheral zones produce raw materials, while core zones produce industrial products (ibid.). According to Bair (2009: 7–8), it focuses on the historical construction of commodity chain, which suggests that commodity chains have been in global scope since the emergence of modern capitalism. The world-system tradition also puts emphasis on ‘the unequal distribution of rewards among the various activities that constitute the single overarching division of labor defining and bounding the world economy’ (Bair 2009: 8).
In 1994, Gereffi and others, in their work *Commodity Chains and Global Capitalism*, emphasised on the global chain camp. Particularly, Gereffi focused on the distinction between producer- and buyer-driven commodity chains. According to Gereffi (1994: 96–7), there are three dimensions in global commodity chain analysis, namely: (1) an input–output structure; (2) territoriality; and (3) governance structure. The first one describes the sequential process of value-adding economic activities that connect products and services. The second dimension implies either a scattered or a concentrated production and distribution network, which consists of firms with different types and sizes. The third one captures power relationships ‘that determines how financial, material, and human resources are allocated and flow within a chain…’ (Gereffi 1994: 97). The analysis of governance structure in global commodity chain analysis breeds the distinction between producer- and buyer-driven commodity chains.

The newest variant in global chain research field, the GVC approach, draws from the GCC approach, advancing the limits of the latter. According to the GVC approach, sometimes chains do not have clear drivers, and different lead firms may exist at multiple nodes in the chains (Humphrey and Memedovic 2006: 8). In view of this, the GVC research field introduces five types of value chain governance, focusing on the relationship between firms and their first suppliers. Realising the shortcomings of the GCC framework, the GVC analysis commits to an ambitious agenda, in which it not only attempts to identify the variation of the networks, but also to theorise the variation (Bair 2005: 163). For this purpose, the GVC framework elaborates the principles introduced under the GCC framework with transaction cost economics as well as the more general study in economic organisation (Gereffi et al. 2005: 80; Bair 2009). This shows great influence of international business literature on the GVC approach, in contrast to the more sociological orientation of GCC analysis (Bair 2005: 154). The GVC approach focuses on how inter-firm relations are influenced by factors internal to the sector, such as industry structure and production process characteristics, and pays little attention to external factors, such as broader institutional environments in which chains operate (ibid.: 164). In addition, the GVC framework reflects on more pronounced interest in policy implication of chain analyses (ibid.). Unlike the GCC analysis, the GVC framework no longer focuses on strategies and actions by particular actors to drive a chain along its entire length. Instead, it puts emphasis on the form of inter-firm coordination in the specific node in the chain (i.e., between lead firms and first tier suppliers; Gibbon et al. 2008: 323). Additionally, an important distinction between the GCC and the GVC approaches is that the former focuses on the power structure of a chain, whereas the latter puts emphasis on how certain activities between particular links are coordinated (Bair 2009).
According to Bair (2009: 10), unlike the view of the world-system tradition, the proponents of the GCC approach perceive the chains as ‘an emergent organisational form with a relatively recent and qualitatively novel process of economic integration’. Bair (ibid.: 10–11) also contends that the GCC approach is different from world-system tradition of chain research in three ways. First, the GCC analysis focuses on firms’ activities, in particular, chain drivers, whereas the world-system approach puts emphasis on firms as organising agents of capitalism. Second, the interest of the GCC approach—i.e., understanding policies in order to capture the dynamic of the chains and boost industrialisation and developmental aims—moves away from the view of world-system tradition, which condemns it as ‘developmentalist illusion’ (Bair 2009: 11). Third, while the GCC analysis seeks to examine the opportunities for firms, countries, or regions to upgrade through engagement into certain commodity chains, world-system tradition pursues such investigation in order to comprehend the world-capitalist economy. Additionally, world-system theorists perceive commodity chains as comprising not only transformation processes from raw material to final goods, but also webs that connect the set of productive activities with the social reproduction of human labour power as an important input to this process (Bair 2005: 155–6). On the other hand, the GCC analysis views commodity chain as

sets of inter-firm networks which connect manufacturers, suppliers and subcontractors in global industries to each other, and ultimately to international markets, and they are principally concerned with the question of how participation in commodity chains can facilitate industrial upgrading for developing country exporters (ibid.: 156).

In terms of temporal orientation, it is argued that the world-system analysis takes the stance of a more historical approach, different from GCC framework, which has a more contemporary flavour (Bair 2005: 156). Differences in temporal orientation lead to the divergence of the two approaches towards globalisation. While world-system framework views commodity chain as a non-recent phenomenon, and rather an ‘integral part of the functioning of capitalist world-economy’ (Wallerstein 2002: 2, as cited in Bair 2005: 156), the GCC approach stresses on commodity chain as a novel and contemporary phenomenon (ibid.: 157). It is maintained that the aim of the GCC research is ‘to understand where, how and by whom value is created and distributed along commodity chain’ (Appelbaum and Gereffi 1999, as cited in Bair 2005: 157). On the one hand, by understanding such organisational power dynamics, it is hoped that one could comprehend how a country’s developmental prospects are influenced by incorporating GCC (Bair 2005: 157). On the other, in the perspective of world-system approach, ‘there is no such thing as national development’, as the world-system is the proper unit of analysis required to understand capitalist world economy in its totality (Wallerstein 1974, 2000, as
cited in Bair 2005: 157). To sum up, while world-systems theory takes a more macro, holistic, and historical approach in understanding international trade and production networks, GCC and GVC analyses have significantly narrowed the scope by putting emphasis on specific value chains, and even distinct nodes within the value chain (Bair 2008).

The above-mentioned three chain frameworks do not imply that the three generations of chain research, succeed each other in temporal ordering (world-system, GCC and GVC approaches as first, second and third generations, respectively), because ‘these literatures overlap, and work in all three traditions of chain research continues, including some by scholars who have been influenced by, and whose present research references, more than one of these frameworks’, despite their individual distinctive objectives and units of analysis (Bair 2005: 164). It is also worth analysing the emergence and development of these frameworks as a part of contending discourses on global competition, which among others, involve the changing role of the state. Here it is argued, for instance, that the terminological shift from commodity chain to value chain concepts coincides with the shift in debates from Washington Consensus to post-Washington Consensus (Gereffi 2014). In the context of development discourses, while the terminological shift from commodity chains to value chains was partly influenced by development studies, signifying the re-engagement of the state parallel to the spirit of the post-Washington Consensus, the shift is also considered a deliberate strategic move to attract more donors (Neilson et al. 2014: 42). Here, it is argued that the value chain approach to development is used to establish institution support systems that offer little other than the increasing penetration of multi-national capital into socio-economic livelihoods of the urban and rural poor (ibid.: 59).

<table>
<thead>
<tr>
<th>Table 3.1.: Contending Chain Frameworks</th>
<th>Commodity chains</th>
<th>Global commodity chains</th>
<th>Global value chains</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theoretical foundation</td>
<td>World-systems theory</td>
<td>World-systems theory Organisational sociology</td>
<td>International business literature Global commodity chains</td>
</tr>
<tr>
<td>Object of inquiry</td>
<td>World-capitalist economy</td>
<td>Inter-firm networks in global industries</td>
<td>Sectoral logics of global industries</td>
</tr>
<tr>
<td>Intellectual influences</td>
<td>Commodity chains</td>
<td>Global commodity chains</td>
<td>Global value chains</td>
</tr>
<tr>
<td>-------------------------</td>
<td>-----------------</td>
<td>-------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td></td>
<td>exchange 4. Kondratieff cycles</td>
<td>upgrading</td>
<td>4. Industrial upgrading and rents</td>
</tr>
</tbody>
</table>

**Key texts**
- Hopkins & Wallerstein (1977; 1986); Arrighi & Drangel (1986); Arrighi (1990); Review, 23(1), 2000
- Gereffi & Korzeniewicz (1994); Appelbaum & Gereffi (1994); Gereffi (1999); Bair & Gereffi (2001)
- Humphrey & Schmitz (2000); IDS Bulletin, 29(1), 2000; Sturgeon (2002); Gereffi et al. (2005)

Source: Bair (2005: 160)

### 3.1.2. The Global Production Network Approach

Whereas GCC and GVC studies have taken mainstream debates, the Global Production Networks (GPN) approach has recently developed as a new strand of research in the chain frameworks. Apart from the GCC/GVC analyses in economic sociology and development studies, the GPN approach also draws insights from various disciplines including economic geography, varieties of capitalism, actor-network theory in science and technology studies, and embedded network approach in economic and organisational sociology (Hess and Yeung 2006: 1193; Coe et al. 2008: 267). The influence of these disciplines allows the GPN approach to be a fertile ground to analyse the global configuration of actors in production, distribution, and consumption.

The GPN approach is developed partly based on the criticisms towards the chain (the GCC and/or the GVC) approaches. Among others, the GPN approach rejects the ‘chain’ metaphor to represent production and distribution processes because it only perceives such processes as mainly vertical and linear (Henderson et al. 2002: 442). The chain concept also implies individual firms viewed as having little autonomy, although such autonomy is important for industrial upgrading and sustained development (ibid.: 445). Proponents of the GPN approach put forward the concept of network, as it portrays intricate links
(horizontal, vertical, diagonal links, constituting multi-dimensional, multi-layered economic activities). Network discourse is viewed to be ‘inclusive, empirically adequate and thus analytically fertile’ (ibid.: 445). Furthermore, the GPN approach proposes the use of ‘production’ concept as a way to show its analytical focus on social process in producing goods and services and reproducing knowledge, as well as to understand the reproduction of labour power (ibid.: 444). Additionally, the GPN approach stays with the term ‘global’ in order to sufficiently capture the interaction between non-place-specific processes and place-specific processes, for example, the dialectics of global–local relations and their asymmetric consequences (ibid.: 445).

As mentioned, the development of the GPN approach is driven as a critic towards the GCC and the GVC approaches. Although the definition of GCC refers to a broader set of interorganisational network, which include most of the elements important to the organisation of firms and inter-firm networks and their relation to economic and social development, the GCC approach has empirically paid attention to only a few of the elements (Henderson et al. 2002: 440). The GCC studies have focused on existing chains, undermining the history of the nature and implications of chains and, thus have neglected social relations embodied in chains (ibid.: 441). Furthermore, the GCC approach views firms as having little autonomy since firms are basically manifestations of the way chains are organised, and of the structural requirements imposed on firms in any given location. As such, the role of national and local differences, such as labour market institution, etc., seem to be undermined (ibid.). Additionally, the GPN scholars argue that the GCC and the GVC approaches overlook the spatial dimension of the GCCs/GVCs (Hess and Yeung 2006: 1196). The GVC approach perceives that the ability of firms to codify information exchanged is an independent factor shaping the type of coordination between a firm and its first supplier. The GPN scholars, however, contend that such a factor is actually an outcome of a set of political processes (Bair 2008: 355, 357).

In the GPN approach, some concepts are central, namely, value, power, and embeddedness. On the concept of value, GPN analysis refers to a Marxist definition of surplus value as well as value associated with economic rents (Henderson et al. 2002: 448). With regard to this, GPN analysis focuses on some aspects (ibid.: 448–49): (1) the initial creation of value within each firm participating in GPN; (2) the circumstances under which value can be enhanced; (3) the possibilities that exist for value to be captured.

On the concept of power, GPN analysis identifies three types of power based on their sources within GPNs (Henderson et al. 2002: 450–51). First is corporate power which refers to the capacity of lead firms to influence decisions and allocate resources decisively and consistently to cater to its own interests. The adoption of network discourse in the GPN analysis implies that it does not take the stance of zero-sum conception of power. The approach views that firms
barely have monopoly power. While admitting that the distribution of power within GPN is asymmetric, GPN analysis argues that lesser firms sometimes have sufficient autonomy to develop and exercise their own strategies for upgrading their economic activities. Additionally, lesser firms involved in GPN may cooperate with other lesser firms in order to improve their situations within GPN (for example, the case of SME clusters involved in GPN). The second type of power is institutional power. GPN analysis refers to this type of power as power exercised by: (1) national and local state; (2) international inter-state agencies (e.g., EU, ASEAN, NAFTA); (3) ‘Bretton Woods’ institutions (i.e., IMF and World Bank) and the WTO; (4) several UN agencies (particularly the ILO); and (5) international credit rating agencies (e.g., Moodys, Standard and Poors, etc.), which carry out a distinct form of private institutional power. The third type of power is collective power. It refers to ‘the actions of collective agents who seek to influence companies at particular locations in GPNs, their respective governments and sometimes international agencies...’ (ibid.: 451), such as trade unions, employers associations, NGOs, etc.

On the concept of embeddedness, GPN analysis holds that it not only links firms functionally and territorially, but also connects aspects of social and spatial arrangements in which these firms are embedded, and shapes their strategies as well as the values, priorities, and expectations of managers, workers, and communities (Henderson et al. 2002: 451). The concept of embeddedness was developed by Mark Granovetter as a sociological counterpart to Oliver Williamson’s theory of transaction cost economics, in which he argues that social context is embedded in economic action and shapes economic organisation and outcomes (Gibbon et al. 2008: 326; Bair 2008: 343). The concept, mainly appearing in network and embeddedness approaches of economic sociology, received tremendous attention in the economic geography, as the latter saw a ‘relational turn’ (Hess and Yeung 2006: 1195). The concept allows economic geographers to use it as a spatial counterpart to the analysis of social relations (Bair 2008: 359). This shows how one of the theoretical foundations of the GPN approach rests on a ‘microsociological network analysis’ (Hess and Yeung 2006).

The GPN approach identifies two types of embeddedness, namely, territorial and network embeddedness. Territorial embeddedness implies that GPNs absorb, and are sometimes even constrained by, economic activities and social dynamics in locations where GPN is embedded. To exemplify, lead firms within GPN may make use of the advantage of clusters of SMEs; lead firms located in certain places may generate a new local or regional network of economic and social relations; or policies of local or national governments are intended to embed certain parts of GPN in particular cities or regions in order to create new nodes in global networks. These examples show the important circumstances for value creation, enhancement, and capture (Henderson et al.: 452). On network
embeddedness, GPNs are also characterised by links between network members despite their country of origins. Analysis of network embeddedness focuses on the “architecture”, durability and stability of these relations, both formal and informal, which determine the agents’ individual network embeddedness (actor-network embeddedness) as well as the structure and evolution of the GPN as a whole’ (ibid.).

The concept of embeddedness is central in the GPN analysis. Drawing insights from economic geography, various capitalism research, and economic sociology, the GPN approach proposes the above classification of embeddedness, which enables the framework to reconcile with the gap between the macro and structural accounts of global economic organisation, and facilitates a grounded analysis of how specific firms in particular geographical, institutional, and industry contexts organise their activities and relations with other actors (Bair 2008).

Coe et al. (2008: 267–8) argue that GPNs share the same ontological and epistemological stances with the GCC and GVC approaches. In the three strands of value chain frameworks (i.e., the world-systems, GCC and GVC approaches), the GPN approach is often associated with GCC analysis, since it is interested in understanding power relations within the entire GCCs/GPNs. Nonetheless, it is clear from the explication of GPN in this section that this approach has distinctive features compared to GCC analysis. Bair (2008) argues that these approaches are actually more complementary than contending, having a common understanding with each other than with the GVC theory.

Recent research by GPN scholars explores the causal drivers of GPNs. Yeung (2014) proposes an actor-centric conceptualisation of causal mechanism behind the organisation of GPNs across industries and territories. He points out factors shaping GPN competitive dynamics, namely: (1) cost-capability ratios (e.g., labour, technology, know-how, and capital); (2) sustaining market development (e.g., reach and access, dominance, time-to-market, customer behaviour, preferences); and (3) working with financial discipline (e.g., access to finance, investors, and shareholder pressure). These factors should be considered within the GPN risk environment, which comprises economic risk, product risk, regulatory risk, labour risk, and environmental risk. Taking account of all these factors, Yeung proposes four actor-level strategic choices, namely, intra-firm coordination, inter-firm control, inter-firm partnership, and extra-firm bargaining. This formulation, as Yeung argues, goes beyond the GVC approach, as it allows actors in the same GPNs to employ all these four strategies. Furthermore, unlike the typologies of governance introduced by the GCC and GVC approaches that confine to a specific industry, the strategies proposed by this GPN approach range across industries and localities. Additionally, coming up with these different actor-specific strategies, the GPN approach contends that
there are different possible trajectories for competitive success and varieties of network configuration.

3.2. Value Chain Governance and Power Relations

Among the three dimensions of the GCC analysis, as mentioned above, the governance dimension is one that has captured tremendous attention. As mentioned, the dimension reflects the attempt of the GCC framework to conceptualise power in inter-firm relationships, resulting in the differentiation between producer- and buyer-driven commodity chains. Similarly, for GVC scholars, the concept of governance demonstrates how corporate power distributes profits and risks along the value chain as well as identifies who exercises power along the chains (Gereffi 2014: 13). Kaplinsky (2000: 11) describes governance as a mechanism in which certain firms take the responsibility for the inter-firm division of labour as well as for upgrading participants’ capabilities. For Humphrey and Schmitz (2002), governance is reflected when ‘some firms in the chain set and/or enforce the parameters under which others in [the] chain operate’. They also identify several aspects why the governance dimension is important. The first aspect is market access. In this regard, although trade liberalisation imposed by developed countries provides opportunities for developing countries to advance their export markets to developed countries, developing countries do not automatically gain market access because the chains that producers in developing countries engage in are steered by a limited number of buyers in developed countries. Decisions taken by these ‘lead firms’ affect the whole chains, for instance, causing certain types of producers or traders to lose out. The second aspect is fast acquisition of production capabilities. While lead firms are often demanding reduced costs, increased quality, and improved speed, they also transfer best practice and give ‘hands-on’ suggestions on how to advance production process as well as skills. The third aspect is distribution of gains. Analysing governance is important in order to understand distribution of gains along the value chains. The fourth aspect is leverage points for policy initiatives. Even though global value chains might undermine government policy as the chains attach one firm to the other on non-market relationships, they provide new leverage points for policy initiatives. For example, buyers in developed countries become more concerned about situations to do with suppliers in developing countries as a result of increased awareness around labour and environmental issues. The fifth aspect is funnel for technical assistance. In this sense, chains-led firms could become entry points for the approaching small-and medium-sized suppliers.

As mentioned, the concept of governance is, among other definitions, interpreted as the ways in which lead firms exercise their ability to set standards and parameters in GCCs (Humphrey and Schmitz 2002). Gereffi (1999b) refers
to these standards and parameters as ‘institutional framework’. Meanwhile, the
degree of power exercised by lead firms in setting the standards and parameters
shapes the ‘levels of drivenness’ (Ponte 2002: 1115). Humphrey and Schmitz
(2002) argue that product and process parameters can also be set by actors
external to the chains, such as the government. Governments often impose
regulations, for example, on food safety or environmental standards. Parameters
or standards can also arise from non-legal agreement, such as codes of conduct.
Understanding governance is important to be able to examine distribution of
gains. Kaplinsky (2000) argues that the barriers to entry are explanatory factors
in distribution of rents, implying that they determine who gains and who loses in
a production chain. As such, those who have access to rents (including the
ability to create a new domain when barriers to entry decrease) are the winners,
whereas those engaging in activities with low entry barriers lose (and with
increasing competition, the losses will rise). Based on this proposition,
Kaplinsky maintains that possessing intangible competencies (e.g., research and
development, designing, branding, marketing) provides opportunities for firms
to govern the value chains. Such intangible competencies are characterised with
high entry barriers as well as high returns. The general case shows that
developing countries are often locked into tangible competencies (e.g.
production), catering to the standards set by lead firms. These tangible
competences are characterised with low entry barriers and low returns. This
argument is in contrast to the standard trade theory, which contends that
developing countries should specialise in labour-intensive (implying
concentration on low entry barrier activities) sectors in order to reap benefit
from trade. This is not surprising as standard trade theory misses one important
point, which is addressed in the analysis on value chain governance, namely,
power. In this regard, analysis on value chain governance demonstrates that lead
firms exercise power to distribute income among chain participants (Kaplinsky

Gereffi (1994) identifies two types of value chain governance, namely,
producer-driven commodity chain and buyer-driven commodity chain.
According to Gereffi, in producer-driven commodity chains the production
system is controlled by transnational companies (TNCs) or other large
integrated enterprises. The firms are characterised with high capital or
technology, such as automobile, computer, and aircraft producing companies. In
a buyer-driven commodity chain, an important role is played by large retailers
and brand-named merchandisers. These firms do not own the production
facilities and they focus on making design or marketing the goods produced
(Gereffi 1994: 99). Recalling Humphrey and Schmitz’s conceptualisation on
 goverance, as mentioned earlier, it is the buyer firms that set and enforce
parameters and standards in the buyer-driven commodity chain, whereas in the
producer-driven commodity chain the producer firms set and enforce the
parameters and standards. Gereffi also links policies, adopted by countries, to these two types of chain governance structure (1994: 100). The policy of import substitution industrialisation (ISI) is generally adopted in capital- and technology-intensive industry, which is by and large involved in producer-driven chains. Meanwhile, export-oriented industrialisation is viable under buyer-driven commodity chains. Mahutga (2014: 159) argues that this typology also reflects the varieties of power that lead firms exercise as well as the direction in which that power is exercised. In a producer-driven GCC, lead firms derive power from a combination of resources and capabilities internal to them and exercise the power backward towards raw material and supplier markets, as well as forward to final consumer markets. In a buyer-driven GCC, lead firms derive power from less tangible resources (e.g., branding) and exercise power backward towards their suppliers. In both types of GCCs, the degree of power is shaped by the heights of entry barriers to the industry, sector, or the specific economic activity within the GCCs (ibid.: 162).

Humphrey and Schmitz (2000) put forward three types of value chain governance, namely, network, quasi-hierarchy, and hierarchy. According to them, network refers to relationships between firms with more or less equal power. In quasi-hierarchy value chain governance, the relationship is marked with one firm subordinated to the other, such as the case with subcontracting. Furthermore, there are two aspects that determine the emergence of network and quasi-hierarchical value chain governance. The first is product definition. Buyers specify product definition. In some industries, especially the technology-intensive ones, product definition often requires the development of new technology and production processes. In other industries, product definition includes design, branding, and marketing. The second is risk exposed to buyers if suppliers fail to perform, or in other words, losses from supply chain failure. Buyers in developed countries become more vulnerable to the failure of suppliers, as non-price competition (i.e., competition based on quality, response time, and reliability of delivery) as well as concerns on safety and standards become increasingly important. Humphrey and Schmitz also maintain that the key determinant of the form of value chain governance is not the intrinsic characteristic of the product, but rather the risks faced by buyers. Quasi-hierarchical relationship is adopted if the loss (or probability and level of loss) is higher than the cost of tight governance. This identification and explication of value chain governance marks the development of value chain governance analysis from GCC to GVC approaches, as the types of value chain governance introduced appear to be the embryo of types of value chain governance identified in the GVC approach. However, unlike the GVC approach, Humphrey and Schmitz recognise the role played by governmental agencies in the value chain analysis. In this regard, they not only acknowledge private and public
governance, but also the hybrids of public–private governance, either on local or global levels.

As mentioned, the GVC approach identifies five types of value chain governance, namely: (1) markets; (2) modular value chains; (3) relational value chains; (4) captive value chains; and (5) hierarchy or vertical integration (Gereffi et al. 2005: 83–4). This classification is made based on three important determinants: (1) complexity of inter-firm transactions; (2) codifiability of information or the degree to which the complexity of transactions can be mitigated through codification; (3) capability of suppliers to meet buyer’s requirements (Gereffi et al. 2005: 84, 87).

In markets, ‘transactions are easily codified, product specifications are relatively simple, and suppliers have the capability to make the product in question with little input from buyers…’ (Gereffi et al. 2005: 86). In this type of value chain governance, complexity of transaction is low, therefore, governance can be conducted with little explicit coordination (ibid.). Furthermore, the cost of switching to other partners is also low (Gereffi et al. 2005: 84). In modular value chains, the codification of products is more complex (Gereffi et al. 2005: 86). The linkage based on knowledge makes it different from a classical market exchange based on price. Additionally, suppliers have the capability to provide full packages and modules. Similar to markets, the cost of switching to other partners is also low. In relational value chains, product specifications cannot be codified, transactions are complex, and suppliers have high capability (ibid.). The difficulty in codifying product specifications leads to the need to exchange tacit knowledge between buyers and sellers. This exchange is carried out based on regular face-to-face interaction and high levels of explicit coordination, which make the cost of switching to other partners high. In captive value chains, the ability to codify product specification is high. However, suppliers’ capabilities are low. This situation requires intervention and control from lead firms because low competence suppliers deal with complex products and specifications. Additionally, switching costs are high because lead firms tend to lock-in suppliers in order to exclude others from reaping the benefits (Gereffi et al. 2005: 86–7). Hierarchy or vertical integration occurs when product specifications cannot be codified, products are complex, and highly competent suppliers cannot be found (Gereffi et al. 2005: 87). This situation induces firms to develop and manufacture products in-house. The need for tacit knowledge exchange, as well as the need to manage the complex networks of output–inputs and to control over resources, drives this type of governance structure.

All of the above-mentioned types of value chain governance involve different levels of explicit coordination and power asymmetry between buyers and suppliers, ranging from low in markets to high in hierarchy (Gereffi et al. 2005: 87–8). According to the GVC scholars, this typology of governance allows them to show the dynamic form of governance along the development of an industry.
as well as the variety of governance patterns from one level of the chain to another (Gereffi 2014: 14). Meanwhile, the belief on the presence of power symmetry between buyers and suppliers, such as that in markets, recalls the perfect competition assumption of neoclassical economics.

Some scholars argue that different types of governance can exist simultaneously within the same sector, and firms may be involved in different chains simultaneously (Knorringa 1999 Tewari 1999). Additionally, governance form is not static and can change over time (Gereffi 1999a; Smith 1996). Other scholars propose several concepts as counter arguments to the producer- and buyer-driven commodity chains typology, for instance, ‘true commodity chains’ in the agricultural sector (Gibbon 2001), ‘bi-polar’ governance structure (Fold 2002), and ‘technology-driven commodity chain’ (O’ Riain 2004).

While the GVC approach is derived from the GCC analysis, the new classification of value chain governance made by the former is not intended to replace the classification of producer- and buyer-driven commodity chain introduced by global commodity chain analysis. Rather, it is because different dimensions are used as a response to different conceptualisations of governance (Bair 2009: 11–12). Gibbon et al. (2008) classify three main interpretations of GVC governance, namely, governance as driving, coordination, and normalisation. Governance interpreted as driving was introduced by Gereffi (1994) in the GCC analysis, as mentioned earlier. Governance as coordination is reflected in the GVC framework. Unlike the conceptualisation of governance as driving, which infers that strategies and actions of lead firms are intentional, conceptualising governance as coordination implies that such strategies and actions are results of structural constraints (Gibbon et al. 2008: 323).

According to Gibbon et al. (2008), the shift from the typology of governance proposed by the GCC analysis to that introduced by the GVC framework marks two significant changes. First, as mentioned above, the subject of analysis is narrowed from the length of the chain in GCC analysis to the inter-firm transaction at a specific node in the GVC framework. Second, conceptualising governance as coordination illustrates the main assumptions of transaction cost economics: ‘the economy’s organisational forms emerge as efficient solutions to structural challenges of transacting, and particularly to problems associated with asset specificity’ (ibid.). The important change, after all, is while the typology of buyer- and producer-driven commodity chains attempt to make explicit elaboration on power relations within inter-firm networks and to understand why they differ in labour- vis-à-vis capital-intensive industries, GVC theory asserts that ‘power is contingent property of only certain type of inter-firm coordination’ (ibid.). This elaboration significantly moves away from governance as driving and even from the world-system perspective.
The third conceptualisation of governance is governance as normalisation. This conceptualisation emanates from the critics of conceptualising governance as coordination and applies a constructivist approach on discursive dimension of framing buyer–supplier relations (Gibbon et al. 2008: 324). In this Foucauldian view of governance, normalisation is viewed as ‘a project of realigning a given practice so that it mirrors or materialises a standard or a norm’ (ibid.). Important works in this field are inspired by the convention theory. Ponte (2009) applies convention theory in understanding how lead firms are able to exercise their power through wine quality conventions in South African wine value chains. Recent discussion by Ponte and Sturgeon (2014) explores theoretical linkages between different types of conventions with five types of GVC coordination at micro, meso, and macro levels.

Other works in this field discuss normalisation in terms of governmentality. Gibbon and Ponte (2008) employ a governmentality perspective in conceptualising governance as normalisation in the analysis of programmes of government purchasing (later known as supply management) within US manufacturing in the post-Second World War period. Governmentality perspective views ‘economic governance primarily in terms of invoked models of practice, and interprets it through economic agents’ descriptions of their own governing (or governed) practices’ (ibid.). Using such a framework, one is enabled to explore the role of expert knowledge and practices in global value chains. According to Gibbon and Ponte (ibid.: 366), governance in GVC cannot be perceived merely as relations between firms, but also as expert discourse, which among other factors involves paradigms of suppliers’ ideal roles and capacities and how these may be measured and shaped. In this case, they make reference to literature that discusses programmatic rationalisations of the proper roles of economic agents and institutions and a set of techniques and tactics for engineering conformity to these roles.

3.2.1. Upgrading and Power Relations

As explained in the previous section, discussing power relations in chain frameworks brings our attention to the issues of governance. Central to these issues are the debates on upgrading. Earlier debates on upgrading put emphasis on industrial upgrading. Industrial upgrading refers to organisational learning to advance the position of a firm or nation in international trade networks (Gereffi and Tam 1998, as cited in Gereffi 1999a: 39). Current discussions focus on economic and social upgrading, highlighting the connection between the two. One possible reason is that, whereas it is assumed that social upgrading automatically follows economic upgrading, recent studies revealed that economic upgrading often has not brought about social upgrading, or that social upgrading has often been paid little attention (Milberg and Winkler 2008). The
concept of economic upgrading has mostly been referred to as ‘moving into higher productivity or higher value-added aspects of production’ (ibid.: 1). Pietrobelli and Rabelotti (2006: 1) define economic upgrading as the ability to ‘make better products, to make products more efficiently, to move into more skilled activities’. Gibbon and Ponte (2005: 87–8) view economic upgrading as ‘the possibility for (developing country) producers to move up the value chain, either by shifting to more rewarding functional positions or by making products that have more value added invested in them and that can provide better returns to producers’. This definition implies four types of economic upgrading as discussed below. Scholars in the chain research field engaging in upgrading issues seek to understand the conditions under which firms or countries are able to climb the ladder in the GCCs/GVCs (Gereffi 2014: 18). It is in this context that the issue of power is of salience.

Humphrey and Schmitz (2000) identify four types of economic upgrading, namely, process, product, functional, and inter-sectoral upgrading. Process upgrading refers to the re-organisation of the production process or introduction of superior technology in order to make processes more productive. Product upgrading implies the production of more sophisticated product lines, which means increased unit values. Firms acquiring new functions in the value chain can be termed as functional upgrading. Examples of functional upgrading are numerous. The ability of denim jeans producers in Torreon, Mexico to move up from assembly and laundry, to finishing at design, distributing, and marketing (Bair and Gereffi 2001) illustrates functional upgrading. In addition, the move by Asian garment manufacturers (particularly South Korea, Hong Kong, and Taiwan) to become ‘full-package’ producers (known as OEMs) has often been referred to as functional upgrading (Gereffi 1999b; Mortimore 2002). Dolan and Humphrey (2000) identify functional upgrading experienced by Kenyan producers of fresh vegetables. Moreover, inter-sectoral upgrading is demonstrated when firms ‘apply competence acquired in particular function of a chain (e.g., competence in producing particular inputs, or in export marketing) in a new sector’ (Humphrey and Schmitz 2000: 4). In this case, Taiwan’s ability to gain a foothold in skill-intensive sectors serves as a case in point. According to Humphrey and Schmitz (ibid.), the first two types of upgrading imply doing the same activities, yet more efficiently, whereas the third type provides opportunity to reposition in global markets. According to Selwyn (2012: 209), these processes resemble a Schumpeterian concept of innovation, which emphasises on: (1) new methods of production and/or new forms of industrial organisation; (2) new commodities; (3) new sources of supply; and (4) new trade routes and markets.

Along the first three types of upgrading, there are some discussions worth noting. First, concerning process upgrading it is argued that ‘local producers learn a great deal from global buyers about how to improve their production
processes, attain consistent high quality, and increase the speed of response’ (Humphrey and Schmitz 2000: 12). This proposition implies that participation of new firms into the global value chain provides opportunities to the firms to undergo product upgrading. This is in line with the UNIDO (2002: 42) report that states ‘the main cause of the large upward leaps appears to be participation in integrated global production networks, which sharply raises the share of complex products in exports’. However, Gibbon (2000) argues that such upgrading is followed by the exclusion of others from the chain.

Second, product upgrading is achieved through buyer succession (Humphrey and Schmitz 2000: 12). Gereffi (1999b) refers to this as ‘organisational succession’ in which firms move from supplying buyers that sell to low-end markets to buyers that sell to more sophisticated market segments. Humphrey and Schmitz (2000: 12) emphasise that this argument needs to be taken cautiously. First, it requires further analysis as to whether this upgrading is simply a result of ‘learning by exporting’, or of the active upgrading efforts by producers. Second, such upgrading may be conflicted with the interest of buyers. In this case, Humphrey and Schmitz (ibid.) argue that, ‘sourcing from new suppliers is rarely possible without buyers investing in those suppliers capabilities’. Third, product upgrading does not always infer switching buyers. Dolan et al. (1999) suggest that the repositioning of the chains as a whole carried out by buyers provides opportunities of upgrading for existing suppliers.

According to Humphrey and Schmitz (2000: 13), unlike the others, the first and second upgrading processes are not controversial. Schmitz and Knorringa (1999) reveal that the latter two forms of upgrading are difficult for local producers to achieve as they conflict with their buyers’ core competence. Finally, summarising the whole discussions on upgrading and global value chain governance, Humphrey and Schmitz (2000: 13) stress that ‘global chain governance can create barriers to upgrading’. According to them, whether these barriers can be tackled depends on how tightly managed the chains are as well as on the availability of local resources for upgrading. This is where global value chain and cluster analyses intersect.

Humphrey and Schmitz (2000) analyse upgrading prospects of clusters involved in the three types of value chain governance, namely market, quasi-hierarchy, and network. They argue that some types of value chain governance allow certain types of upgrading but not others. Involved in quasi-hierarchical relationships, firms have opportunities to undergo process and product upgrading, but have limited opportunities in functional upgrading. Opportunities to pursue functional upgrading are larger when firms are involved in market- or network-based relationships. However, this still requires substantial investment by local producers as well as support from local institutions. Meanwhile, engaging in a quasi-hierarchical relationship does not always equate to being trapped in a locked-in relationship. The case of firms in Korea and Taiwan,
which were successful in functional upgrading, shows the importance of human resource and development policies at a national level, local institutional support, and that the firms have a strategic intent to pursue different ways to acquire knowledge for upgrading (Humphrey and Schmitz 2000: 30). This line of argument by Humphrey and Schmitz accords with Kaplinsky (2000), who argues that ‘it is not so much about whether to participate in global processes, but how to do so in a way which provides sustainable income growth for poor people and for poor countries’.

Although chain literature has made an important contribution in upgrading analysis, particularly the GVC approach with its strong policy-oriented analysis, Bair (2005: 166–7) identifies some limitations on the extent of formulation of upgrading. First, most of GCC and GVC studies on upgrading emphasise on the level of an individual firm in a certain value chain. This poses a question on the implications of such firm-level upgrading to the larger units of national or regional economy and thus omits the question on winners and losers in today’s global economy. Recently, however, the GVC scholars take into account country- or regional-level as the point of departure from their analysis by defining upgrading as ‘…strategies used by countries, regions, and other economic stakeholders to maintain or improve their positions in the global economy’ (Gereffi and Fernandez-Stark 2011, as cited in Gereffi 2014: 13).

Second, one should be cautious about who benefits from the upgrading process. To exemplify, functional upgrading often occurs ‘at the behest of [a] lead firm’, which can also be interpreted as transferring less profitable activities to more vulnerable firms. Third, examining who benefits from the upgrading process also implies closer investigation on the role of workers as chain participants. It is argued here that the benefits from participating in GVCs may not translate into higher wages, improved job security, or working conditions (Ponte 2002; Bair 2005: 167). Furthermore, discussions on upgrading should also focus on how workers contribute to value creation in terms of labour process (Smith et al. 2002, as cited in Bair 2005: 167).

The above-mentioned issues identified by Bair relate to the question of how power relations come into play. Power relations in the GCCs/GVCs reflect how lead firms shape market access, technical production, and distribution of gains along the GCCs/GVCs (Taylor 2008: 16). As explained earlier, this plays an important role in shaping the opportunities for firms to achieve product, process, and particularly functional upgrading. Recalling the argument of Humphrey and Schmitz (2000) mentioned earlier, value chain governance shapes the prospect for firms to upgrade. In types of value chain governance with more asymmetrical relationship, firms have limited opportunities to achieve certain types of upgrading that offer the highest economic rents (i.e., functional upgrading).
Furthermore, on the questions of winners and losers in today’s global economy, critics argue that developed countries continue to occupy the nodes that offer higher, if not the highest, economic rents, compared to those occupied by developing countries. The former certainly have more resources to set entry barriers for the latter to climb the ladder along the GCCs/GVCs. It is argued that there has been a shift of power in the GCCs/GVCs in favour of major manufacturers in China and India (Gereffi 2014: 15). Since more tangible barriers to enter manufacturing sectors tend to decline, lead firms move towards intangible assets (e.g., copyrights, brand names, designs) as determining barriers (ibid.: 11).

On the issue of the implication of upgrading on workers, social upgrading, as will be explained below, has been a recent attempt to understand whether workers also reap the benefits of the upgrading process. However, the discussions on social upgrading overlook the agency of workers in the GCCs/GVCs. Essentially, critics of the upgrading concept of the GCC/GVC approaches also refer to the need to explore the links between upgrading processes with changing social relations (Selwyn 2012: 210). This also corresponds to labour regime applied on the sites of production, which will be discussed in the next section. Additionally, the question of impact of upgrading on workers is also associated with the discussions on winners and losers in the recent global economy.

Whereas the GCC and the GVC approaches focus on the upgrading theme of inter-firm relationships, the GPN approach emphasises on the multiscalarity of the upgrading process (Hess and Yeung 2006). For example, GPN scholars are interested in understanding the institutional context that shapes (by either limiting or advancing) the upgrading process. In this case, the spatial embeddedness (e.g., social, political, cultural, and institutional environments) of firms in the GPNs is the point of departure in the analysis. Scholars of the GCC and GVC approaches are interested in analysing upgrading partly to inform policymakers about prospective development trajectories (Gereffi 2014: 17). The GPN approach embraces this theme under the concept of ‘strategic coupling’. Under this concept, the GPN approach seeks to understand ‘the multiscalarity of forces and processes underlying regional development...’ (Coe et al. 2004). This implies that regional development is a relational process involving ‘a range of institutional activities across different geographical and organisational scale’ (ibid.: 469).

### 3.2.2. Upgrading and Standard Trade Theory

Before discussing the upgrading concept and standard trade theory, it is worth noting that the chain frameworks propose arguments different from the standard trade theory. While the standard trade theory focuses solely on trade, chain
research is devoted to understand the organisations of international trade—from primary production to final consumption—in relation to complex institution (Raikes et al., 2000: 394). Additionally, as mentioned earlier, while economic power is dismissed in standard trade theory, the chain frameworks take this issue into account.

The notion of economic upgrading is not at one with standard trade theory. Economic upgrading refers to the pursuit of gaining competitiveness in higher value-added process (Milberg and Winkler 2008: 4). Linking economic upgrading and chain frameworks iners that participating in GCCs/GVCs/GPNs paves the way for economic upgrading through learning process undertaken by firms. This perspective is in contrast to the view of standard trade theory, which basically maintains that countries ‘remain’ specialising in their absolute or comparative advantage (ibid.). In other words, the notion of economic upgrading in the chain frameworks illustrates a more dynamic perspective compared to the standard trade theory that seems to be relatively ‘static’ in theorising the paths that a country or firm should take for improvement. These contending arguments are not surprising, as the latter focuses on absolute/comparative advantage (which refers to ‘the potential which different environments provide for reaping economic rents’; Kaplinsky 2000: 18), while the former puts emphasis on competitive advantage (which is defined as, ‘the factors which explain why some firms are able to appropriate these economic rents’; ibid.).

The assumption of chain frameworks is that ‘while both disintegration of production and its re-integration through inter-firm trade have recognisable dynamics, they do not occur spontaneously, automatically or even systematically. These processes are initiated and institutionalised in particular forms as a result of strategising and decision-making by particular actors’ (Gibbon et al. 2008: 319). This statement highlights the distinctive feature of the chain frameworks in viewing trade interaction, which is different from the view of standard trade theory. Whereas the latter claims that trade liberalisation channels trade expansion, the former contends that the expansion apparently does not take place automatically. According to the chain frameworks, while trade liberalisation allows for growing markets, producers might not automatically have access to such markets due to, among other reasons, a lack of information, reflecting a power asymmetry between buyers and suppliers. Participating in GCCs/GVCs/GPNs thus opens access to the market. Under the lens of the chain frameworks, market liberalisation may shift power relations in favour of certain GCC/GVC/GPN actors, resulting in a GCC/GVC/GPN reconfiguration (Ponte 2002).

Milberg and Winkler (2008) propose possible relationships between economic, social upgrading, and international trade performance as demonstrated below. As shown by Figure 3.1., the connection between economic upgrading and international trade performance ‘run in both directions’, that is, international
trade performance reflects economic upgrading (for instance, because firms achieve international competitiveness in higher value-added products), or international trade performance shapes economic upgrading (in the sense that international trade is a driver of economic growth). Economic upgrading is in turn expected to bring about social upgrading. Milberg and Winkler maintain that the link between trade performance and economic upgrading seems to be stronger than the link between economic and social upgrading (ibid.: 38).

**Figure 3.1.: Trade, Growth and Upgrading**

![Diagram showing the relationship between International Trade Performance, Economic Upgrading, and Social Upgrading.](source: Milberg and Winkler (2008: 2))

The link between economic upgrading and trade becomes more complex when we add foreign direct investment (FDI). Adding FDI into GCCs/GVCs implies a specific focus on certain value chain governance. Using the types of value chain governance proposed by Humphrey and Schmitz (2000), FDI is involved in hierarchical, and to some extent, quasi-hierarchical, value chain governance. Figure 3.2 combines types of firm relationship with the nature of the goods traded. Trade interactions that include FDI are reflected by quadrants 1 and 4.

**Figure 3.2.: the Governance of Trade**

<table>
<thead>
<tr>
<th>Nature of good/service</th>
<th>Governance of GPN</th>
<th>Arm’s-length</th>
<th>Intra-firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final</td>
<td></td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Intermediate</td>
<td></td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Arm’s-length</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Bardhan and Jaffee (2004), as cited in Milberg and Winkler (2008: 6)

The concept of triangle manufacturing can be considered relevant to the discussion on trade liberalisation. According to Gereffi (1999a), as cited in Kaplinsky (2000: 27), triangle manufacturing posits the situation when
producers, who are forced out of the market as a result of shifting competitive advantage, become the leaders for production intended for a third market. For example, Taiwanese footwear and clothing producers, who previously displaced producers in North America and Europe, were then displaced by Chinese producers due to lower costs offered by Chinese manufacturers. Taiwanese firms’ response was to dismantle their own production and take the role as intermediaries, which led Chinese producers’ production capabilities and consigned their products to the final markets. Using this concept, trade liberalisation can be seen as an instrument that strengthens triangle manufacturing.

Another issue showing how power relations may shape the benefits of trade liberalisation is related to the rule of origin. Studying Mexico’s and Honduras’s garment exports to the US, Bair and Peters (2006) reveal that the free market regulatory regime was actually detrimental for suppliers in the former two countries due to the rule of origin. The study reports that the rule of origin protects certain nodes in which the US producers have a competitive advantage (i.e., nodes of producing textiles and fabrics), and therefore, hinders the opportunity for Mexican and Honduran garment suppliers to take up functional upgrading. As such, the study doubts whether participating in global apparel production systems may result in endogenous growth and sustainable development for Mexico and Honduras. Similar effects occurred in the case of the clothing industry in the Slovak Republic (Smith et al. 2014).

3.3. The GPN Approach and Power Relations

As explained in the previous section, the discussions on power relations in the GCC and the GVC approaches focus on inter-firm relationships. Although the GCC approach declares that it also considers territoriality, which is to some extent connected to local institutional contexts of the GCCs, the approach does not focus on the social relations constituting the GCCs (Bair 2008: 350). Both the GCC and the GVC frameworks capture power relations under the theme of GCCs/GVCs governance and upgrading. Focusing on inter-firm relationships also implies that the GCC and the GVC approaches confine the debates to corporate power. The whole discussions on governance and upgrading reflect how firms exercise different kinds of power (i.e., market power, financial power, technological power). In the world-system approach, power relations are discussed within core–periphery constructs as an attempt for sustaining surplus accumulation regime in the capitalist world system (Patel-Campillo 2011: 82).

In contrast, the GPN approach goes beyond the vertical linear perspective on power relations and recognises the forces of non-firm actors. As mentioned, the GPN approach classifies three types of power, namely, corporate power, institutional power, and collective power. Such classification grounds the
network perspective taken by the GPN approach. Although to some extent the GPN approach shares similar ontological and epistemological stances with the GCC and GVC approaches, a distinctive feature of the former lies in its take on network ontology. A network ontology implies a focus on ‘... the micro-foundations of social economic organisation and micro-scale agency...’ (Hess 2008: 452). This allows GPN practitioners to appreciate the salience of structure, agency, institutions, and contexts. The GCC and GVC approaches lean towards the centred conception of power, which views power relations as a zero-sum constellation. In contrast, the GPN approach takes the stance of the networked conception of power, which perceives power ‘...as a medium to achieve diverse ends’ (ibid.: 454–5). This suggests the emphasis on the relational sense of network interaction whereby actors mobilise their resources in order to exercise their influence and to change the outcome. This conception of power does not neglect the power asymmetries, but it allows various coalitions of network actors to become involved in embedding and disembedding processes (ibid.: 455). As such, a (temporal) win–win situation might be foreseen. With this kind of conception of power, the GPNs are seen as contingent and politically contested in nature.

Apart from the concept of power, the concept of embeddedness is central in the GPN approach. As mentioned, this includes territorial embeddedness and network embeddedness. The concept of territorial embeddedness reflects the emphasis of the GPN theorists on socio-spatial aspects of GPNs. The concept itself demonstrates the influence of economic geography and economic sociology on the GPN approach. Here the emphasis is on place, space, and geographical scale. For economic geographers, place is socially constructed, and contains a certain set of class relationship between firms and workers, mediated through regulatory institutions (Castree et al. 2004: 64–5). Whereas place is the local scale, space is the trans-local scale (ibid.: 98). Places have distinct boundaries and yet are interdependent, making place and space melt into one another (ibid.: 65). In the GCC approach, space is not perceived as something intrinsic to transnational capital, rather as a factor that needs to be overcome in the GCC coordination (Patel-Campillo 2011: 84). Like place, geographical scale is also socially constructed, and it actively shapes and constrains social relations (Castree et al. 2004: 97). In discussing power, the concept of geographical scale becomes important, as the ability to exercise power in certain geographical scale is essential to achieve the objective of certain individuals, groups, or organisations. In view of this, actors, relations or institutions in GPNs might be

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12 In the early 1970s, the subfield of economic geography saw a ‘Marxist turn’, moving away from neoclassical economics to Marxian political economy for its theoretical influence (Bryson et al. 1999: 9). This has brought the focus of economic geographers on social relations of production, including the historical and material processes of uneven urban and regional development.
multiscalar or are highly scale specific (ibid.: 98). Those that are highly scale specific may find temporary or permanent expression at another scale, a process called ‘scale-switching’ or ‘re-scaling’.

Putting all these together, GPN theorists put emphasis on the relational sense of the GPNs. This implies the interest in the interdependence and interconnectedness of global and local rationales of GPNs (Amin 1999: 44). This is in contrast to a territorial logic, which focuses on a certain spatial scale of phenomenon against other geographical scales (e.g., regional, national) (ibid.). The relational emphasis in the GPN approach reflects a complex power constellation in the GPNs, constituting forms of governance at multiple levels, as well as serving as contested fields for GPN actors (Levy 2008: 2–4). Analysing inter-firm relationships with a networked conception of power allows the GPN approach to move away from a resource view of power (e.g., investigating how entry barriers determine certain firms to become lead firms) to a relational view of power that focuses on the bargaining power of firms in the GPNs (Mahutga 2014: 161). This implies an assumption that the exercise of power of a certain firm is dependent on: (1) its relationship with other firms; (2) resource differentials between the firm and other firms related to it; and (3) its position in the network of firms (ibid.).

As mentioned, the ontological stance of the GPN approach lies on the relational network of GPN actors (firms and non-firms). The emphasis on the socio-spatial aspects of GPNs serves as one of the key features of the GPN approach. For students of the GPN approach, production process is both social and geographical (Castree et al. 2004: 6–8). The former refers to the social processes that embody GPNs, whereas the latter concerns the dialectic of place and space (i.e., geographical differences and geographical interdependences). The ontological challenge of the GPN approach concerns the relational network approach in integrating the material and socio-cultural aspects of GPNs (Hess and Yeung 2006: 1199).

The GPN approach incorporates an institutional dimension consisting of mutually evolving formal and informal institutions that shape the landscape of production and consumption (Hardy et al. 2011). The following paragraphs discuss some examples of the formal institutions of the state and non-state actors and the role they play in shaping GPNs. Meanwhile, informal institutions such as business values, norms and practices are also of interest for GPN scholars. This can be linked to the recent attempt in GPN literature to employ a diagrammatic conception of power by focusing on strategies and practices within GPNs (Hess 2008: 456). This implies understanding governance as normalisation in GPNs, as mentioned in the previous section. Bringing in such a Foucauldian view of power draws the attention of GPN scholars to disciplinary power through techniques and practices in GPNs. This recent attempt also links to the interest of the GPN approach on social processes in the GPNs. The social
institutions constituting the GPNs are created and reproduced by power relations (Taylor 2008: 20). As will be explained in the next section, this is an important point of departure for analysing labour relations in the GPN approach, particularly the issue of labour regime.

As mentioned, due to the influence of different disciplines, the GPN approach provides a fertile ground for power analysis. The concept of embeddedness, for instance, brings in the sociological perspective to GPN analysis, whereas the concept of power allows a scrutiny of GPN economic structure and agency (Levy 2008: 3–4). As mentioned, the focus on GPN institutions offers a study on practices and discursive dimensions of GPNs, while the material dimensions of GPNs are captured among others through the political analysis of market power and the asymmetrical power relations in favour of lead GPN firms (ibid.: 4–5).

Recent contributions in the material dimensions of GPNs draw insights from the neo-Gramscian approach, which argues for dialectic relations between GPNs and the wider contexts of ‘neo-liberal ideologies and institutions, geopolitical inter-state structures, and patriarchal gender relations’ (ibid.: 5). A neoliberal state may also join together with private entrepreneurial elites in setting and enforcing regulations necessary for capital accumulation (Chan et al. 2013). The material and discursive dimensions analysed in the GPN approach can be connected to material and ideational sources of power, as proposed by Fuchs and Glaab (2011). According to the authors, material sources of power can be actor-specific or structural in nature. The former implies the possession of financial means, while the latter is concerned with how production and consumption processes shape the power of actors. Structural material power may entail market power resulting from monopolistic or oligopolistic market competition. Ideational sources of power highlight symbolic meaning of social practices and institutions, which enable or constrain behaviour and action.

In order to understand the conceptualisation of power in the GPN approach, it is important to explore the link between such conceptualisation and overarching theoretical discussions on power. Initial debates on power have preoccupied the field of political science. Here, the debates have centred on the centralised and decentralised conceptions of power. The former underlines the notion of power as resources, whereas the latter views power as a means.

In the early debates in political science, Robert Dahl (1957, as cited in Digeser 1992: 978) formulates a conception of power that focuses on decision-making processes. This subjectivist approach towards power highlights the question: ‘Who has power?’ (Therborn 1978: 130). Such conception of power is perceived as a one-dimensional view of power (Lukes 2005). It demonstrates a simple exercise of power of someone over the other. It focuses on observable behaviour and decision-making process. Power is perceived to exist when there is an overt conflict. Responding to this conceptualisation, Bachrach and Baratz (1962) propose ‘The Two Faces of Power’. They argue that power does not solely take
place when someone makes someone else to do something that the latter does not want to do, but also occurs when the latter is prevented from doing something he or she wants to do. This conceptualisation is called a two-dimensional view of power (Lukes 2005). Whereas the one-dimensional view of power focuses on key issues, the two-dimensional view of power puts emphasis on issues and potential issues. As with the one-dimensional view of power, the two-dimensional view of power also concludes that power is observable through overt or covert conflicts.

Proposing a radical view of power, Lukes (2005) formulates the third face of power. The so-called three-dimensional view of power goes beyond the other two views of power. It also focuses on the decision-making process and what it is considered as agenda within this process. Controlling political agenda, however, according to the three-dimensional view of power, is not necessarily achieved through decision making. In this view of power, the latter is at work even when there is an absence of overt conflict (Friesen 2012: 21). This view of power helps explain the political power inherent in economic structures by focusing on the power derived from the capacity to determine rules and practices that govern these structures. To put it simply, in the three-dimensional view of power, someone manipulates the other to consent to do what the former wants. The three-dimensional view of power includes observable conflicts, either overt or covert, as well as latent conflicts. These three faces of power, according to Lukes, serve to be alternative interpretations of power.

The radical view of power marks the spread of discussions on power from political science to other social sciences, particularly sociology. This expanse is pronounced when ‘The Fourth Face of Power’ came into discussion (Digeser 1992). Here, a distinctive contribution from Michel Foucault is worth mentioning. Foucault puts forward a productive conception of power. His arguments shift the focus from the locus of power to how power is incorporated into practises. Foucault claims that power rests at the bottom of all social practises (ibid.: 980). Power is seen to operate when an actor participates in discourse and norms, and its existence is dependent on social practices (ibid.: 982). Foucault’s conception of power rests on a decentralised view of power (Sadan 1997: 38). Anthony Giddens (1982, 1984, as cited in Sadan 1997: 38) continues and simultaneously criticises the works of Foucault by proposing the ‘duality of structure’. In addition to the view that power is exercised by human agents, Giddens also contends that power creates, influences, and limits human agents.

The three faces of power refer to the power exercised by someone over the other.13 This recalls the typology of power, namely: ‘power over’ and ‘power to’

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13 As Lukes (2005) emphasises, the significance of the action qualifies whether or not it is considered power. In Lukes’s (2005: 37) own words, ‘...A exercises power over B when A
‘Power over’ refers to the ability of actors to exercise control over others. This conception correlates to what Hess (2008) calls centred conception of power. Meanwhile, ‘power to’ refers to the social relations constituting the actors and their capacities and resources. The conception is interested in the exchange and accumulation of power, rather than in the distribution of power (Therborn 1978: 131). This resembles the networked conception of power as argued by Hess (2008). The typology of ‘power over’ and ‘power to’ helps scholars investigate, respectively, the capacity of the actor and the power of structures (Fuchs and Glaab. 2011). The typology also reflects the centralised and decentralised views of power. Lukes (2005) argues that ‘power over’ is a sub-concept of ‘power to’, as the former enables the person to affect a certain range of outcomes, while the latter underlines what signifies the ability or the power a person might have. As ‘power over’ means a successful attempt to secure compliance, this approach allows scholars to draw a causal link in analysing power.

Rather than focusing on its subject or quantity, the Marxist historical-materialist approach on power is interested in the ongoing social process of reproduction and transformation (Therborn 1978: 131). Here, the Marxist attempt seeks to understand the character of power and how it is exercised, in the sense of specific historical relations of production. This drives away the attention from subjects or structure to the process of reproduction. The analysis of class relationships of exploitation and domination enables students of the Marxist historical-materialist approach to understand that capitalist production not only produces commodities and surplus values, but also (re-)produces capital relation itself. It produces and re-produces, on one hand, the capitalist, and the wage-labourer on the other (ibid.: 137).

As mentioned earlier, the GPN approach takes the stance of the ‘networked’ as well as the ‘diagrammatic’ conceptions of power, albeit recognising the asymmetrical power relations within GPNs. As explained, these conceptions are closely linked to the relational sense of GPNs. Moreover, this also shows that the GPN approach subscribes to a decentralised view of power. Even though such conceptions of power reflect the GPN approach’s main interest in the exchange and accumulation of power, the Marxist historical materialist approach of power has a certain amount of theoretical influence on the GPN approach, for example, in the latter’s analysis on social processes embodying the GPNs (e.g., labour reproduction). Sunley (2008) argues that the recent wave of relational approaches in economic geography is preoccupied with imprecise networks and micro-scale processes, which hinder the approaches to offer causal explanations and schemas. Nonetheless, recent attempts by GPN scholars show affects B in a manner contrary to B’s interests’. Thus, the successful attempt to secure the other’s compliance is perceived to be the exercise of power.
that relational view of power may still allow causal link analysis. As mentioned in the previous section, Yeung (2014) proposes an actor-centred conceptualisation of causal drivers of GPNs in terms of their competitive dynamic and risk environments. Here the focus is on ‘…structural competitive dynamics and actor-specific strategies shaping these networks and their organisational configurations within and across different industries and localities’ (Yeung 2014: 4).

The role of the state in the GPN approach is embraced under the approach’s conceptualisation of power and embeddedness. Under the notion of institutional power, the GPN approach contends that the state plays a role in shaping the regulatory environment of the GPNs. This intertwines with the concept of territorial embeddedness, which considers the socio-spatial context of the GPNs. The socio-spatial context is among other factors shaped by regulatory environment constituted and enforced by the state. As a major institutional actor mediating the interests of other GPN actors, the state can play a minimal role or that of an interventionist (Castree et al. 2004: 42). The former refers to the role of state as the so-called ‘invisible hand’, whereas the latter is demonstrated by the active role played by the state in public affair, or being the so-called ‘welfare state’.

Nonetheless, the institutional power concept here serves as a reduction of the role of the state, resulting from the lack of theorisation of the state in GPN literature (Smith 2015). Neilson et al. (2014: 3) argue that state action and inaction reflect the contradictions that inherently embody a complex constellation of sovereign powers. Here, GPN scholars may draw insights from the neo-Gramscian approach. Recent attempt in GPN scholarship puts forward a strategic-relational framework, which concentrates on ‘…regulations of the conditions for capital accumulation in GPNs in macro-regional environments’ (Smith: 2015: 297). The argument holds that state policy frameworks should be seen as the outcomes of spatial struggles within the state and between state institutions and other social forces (ibid.: 298). Here, the strategic relational approach helps drive the focus away from state policy to the configuration of social forces establishing state support for particular policy directions, as well as how state hegemonic projects construct the basis for accumulation strategies. In this case, GPNs are embedded and constitute certain spatial accumulation regimes, articulated with regulatory and state regimes at different scales (ibid.: 299). The regulationist insight on the strategic–relational approach to the role of state in GPNs sheds the light on the social relations of capitalism, which in this case manifest in certain situations in the form of labour process, regime of accumulation, the mode of regulation, and the mode of integration into the world market (Jessop and Sum 2006, as cited in Smith 2015: 300). The strategic–relational understanding on the role of the state in GPNs thus underlines three dimensions of intersection between GPN and the state, which
include: (1) state–capital relations; (2) state–state relations; (3) state–GPN accumulation strategies.

The strategic–relational framework on the role of the state in GPN, as explained earlier, echoes the school of thought that perceives the state as a social relation. As Marxists were at the time relatively silent on the role of the state in capitalist society, Poulantzas came forward with the argument that the state is a social relation that supports a capitalist type of state (Jessop 2014). He proposes the relative autonomy character of the state. Drawing from Althusserian Marxism, Poulantzas argues that the separation of economics and politics is required in the capitalist mode of production. The state is allocated the function to secure social cohesion (Martin 2008). Meanwhile, Poulantzas also highlights the strategic–relational character of the state, as the political class struggles and outcomes are mediated and encapsulated through certain institutional forms in specific periods, stages, and conjunctures (Jessop 2014). Here, he emphasises that the balance of forces is not something static, as it is shaped by the strategic–relational terrain of the state, economy, broader social forces, as well as changes in organisation, strategy, and tactics. For Poulantzas, the capitalist type of state is characterised as a hierarchically organised, centrally coordinated, sovereign territorial state based on the rule of law. Such a political regime places political subjects as individual citizens, rather than as members of opposed classes, hence, conceals economic exploitation and class power. Drawing further from Gramsci’s hegemony analysis, Poulantzas claims that political domination hinges on the capacity of the dominant class to promote a hegemonic project that links individual interests to a national interest while also supporting the long-term interests of the capitalist class and its allies. As a social relation, therefore ‘...the state cannot constitute agency with homogenous purpose of its own but, rather, condenses the classes it seeks to unify’ (Martin 2008: 20). In other words, ‘state power is a relation between social class forces expressed in the content of state policies’ (Therborn 1978: 34). Hence, it goes without saying that the state’s power is constrained by the very same social and economic mechanism that the state seeks to institutionalise and protect (Offe 1996: 64). On one hand, the state represents, in the sense of promoting and defending, the interests of the ruling class. On the other, the state mediates the exploitation or domination of the ruling class over other classes. While the former involves the relation between the state and the ruling class, the latter reflects the triangular relationship among the state, the ruling class, and the ruled classes. The relative autonomy of the state is played out along the relations of representation and mediation (Therborn 1978: 181). Given its representation function, the state is never a passive mediator. State mediation of relations includes ensuring the ruled classes both submit to the established social order and contribute to its functioning (ibid.: 219).
Furthermore, the analysis of terrains of political vis-à-vis economic struggles includes scrutiny on labour process in terms of a complex economic, political, and intellectual division of labour, as well as of the extended reproduction of labour (Jessop 2014). The extended reproduction of labour takes into account economic, political, and ideological relations, which presupposes the role of the state, mental-manual division of labour, as well as a nexus of capital and non-capitalist relations of production. This points to how the state is involved in the reproduction of the relations of production by providing the latter a stabilising legal framework that is supported by force (Therborn 1978: 165).

As mentioned above, the extended reproduction of labour presupposes the role of the state. Here, the state plays a role in constituting institutions that shape labour regime and labour agency. This manifests in the functions of the state as: (1) a regulator; (2) a provider of infrastructure as well as basic services and education; (3) a container of labour practices; and (4) a political apparatus. Additionally, the state also serves as an employer via the public sector. Furthermore, there are also the so-called quasi-state bodies, such as the WTO, which also exercise important institutional power. For Marxist and neo-Marxist theorists, the role of the state is to internalise and manage contradictions of capitalist accumulation (Castree et al. 2004: 43). For this purpose, the state seeks to ensure ‘accumulation function’ (e.g., conditions for economic growth) and maintain ‘legitimation function’ (e.g., preventing discontent about the capitalist system). This involves several roles as played by the state to regulate firms and workers, for example, through company laws, labour laws, and investment laws.

While the state exercises its institutional power at certain scales, changes in the scaling of regulatory processes may also take place, which is called ‘re-scaling of the state’ (Castree et al. 2004: 106–8). The state may ‘downscale’ (to the regional or local levels) or ‘upscale’ (to the supranational level) its power as responses ‘from below’ or ‘from above’ (e.g., transnationalisation of the economy, supranational regulatory bodies such as the IMF). This re-scaling of the state is to be perceived as changing the character of the state, rather than withdrawal of the state (ibid.: 111). This theoretical argument is salient especially in understanding the role of the state in the so-called globalised world, for it is often viewed that the role of the state is eroding under such an era. Dicken (1999) contends that this process of re-scaling of the state reflects ‘a dynamic bargaining process’ between the states and transnational companies (TNCs) resulting from the attempt of each party to shape and respond to the national regulatory environment. It is worth noting that this two-way process between states and TNCs involves asymmetrical power relations. This dialectic process expands in a wider context of the GPNs. Thus, while the GPNs exhibit state action (or inaction), the GPNs themselves shape the arenas they are embedded into (Neilson et al. 2014: 3).
The concept of institutional power is not only useful to analyse the role of the state but also the role of other actors in shaping the regulatory environments of the GPNs. Following Karl Polanyi, Mayer and Pickles (2010) argue that private governance serves as a means to re-embed the global markets. Realising the limited capacity of government in developing countries to enforce labour standards, pressures have been directed to firms in the GPNs, resulting in the adoption of various codes or standards (Locke and Romis 2007: 54). Such codes or standards might be adopted as voluntary codes of conduct (e.g., applied unilaterally by the firm) or through multi-stakeholder approaches (e.g., through membership of a multi-stakeholder organisation or through certification). An example of the former is a code of conduct imposed by brand owners towards their suppliers in textile GPNs, whereas the latter points to various examples, such as the Ethical Trading Initiative (ETI), and the Roundtable of Sustainable Palm Oil (RSPO).

This private voluntary regulation demonstrates the extent of influence of NGOs as well as the space opened for them to shape the regulatory environments of GPNs. However, critics against corporate codes of conduct contend that such private voluntary regulation undermines the thorough intervention of the government and trade union (Locke and Romis 2007: 54). While an institutionalist approach on standards helps GPN scholars identify sources of private authority and how standards receive legitimacy, the governmentality approach drives the attention to perceive standards as technologies for governing conduct (Ponte and Cheyns 2013). Another issue is related to how labour standards are measured in such private voluntary regulation. Studies have shown how factory audits for corporate codes of conduct could show problematic results (ibid.: 58). Drebes (2014) contends that social auditing may fail to pick up less visible issues, hence explains the lower impacts of such conduct on enabling rights than on outcome standards.

There have been various analyses that attempt to examine the role of multi-stakeholder approaches in GPNs. Hughes (2001), for example, employs stakeholder capitalism as a ground to understand the impact of the ETI on the (re-)organisation of UK retailers’ global supply chains. Stakeholder capitalism implies that the inclusion of broader stakeholders is financially profitable and ethically imperative, instead of only serving the interests of shareholders. Hughes argues that while the ETI has brought emphasis on labour conditions as well as close engagement between firms, NGOs, and trade unions, this approach has not successfully addressed the unequal power relations between retailers and suppliers. Indeed, the main underlying problem in multi-stakeholder approaches lies in bringing the various actors with different and often conflicting objectives and ideologies (Lund-Thomsen and Coe 2013: 17). Analysing Fair Trade certification in the banana production in the Dominican Republic, Trauger (2014) argues that Fair Trade serves as a ‘spatial fix’ for capital. This implies a
strong argument for how private governance may as well bring about the creation of a new form of production and consumption. The institutional power coming from the non-state actors may also correspond to the issues of labour agency, as will be elaborated in the next section.

3.3.1. Labour Relations and the GPN Approach

As mentioned, the use of the term ‘production’ by the GPN approach shows an analytical focus on social process in producing goods and services, and reproducing knowledge. The use of this term is also intended to understand the reproduction of labour power. This proposition links to one of the three concepts central in the GPN approach, namely, value. As mentioned, the GPN analysis makes reference of the concept of value to the Marxist definition of surplus value as well as to value associated with economic rents. The centrality of labour in GPNs is inevitable, as GPNs serve as networks of embodied labour (Cumbers et al. 2008: 372). As also mentioned in the previous section, in employing a relational view of power, the GPN approach classifies three types of power (i.e., corporate, institutional, and collective power). In this context, the GPN approach considers the forces coming from workers’ collective power, such as trade unions, as an important actor shaping the landscape of GPNs. Meanwhile, the GPN approach also allows an analytical understanding of the link between global and local dimensions in shaping employment relationships in each GPN. The global dimensions may refer to the prerogatives of business processes coming from lead TNCs, whereas the local dimensions may point to the local labour market (Helfen and Fichter 2013: 559).

Initial attempts at addressing labour in GPN literature tend to link economic upgrading with social upgrading. Social upgrading is defined as ‘the process of improvement in the rights and entitlements of workers as social actors, and enhances the quality of their employment’ (Sen 1999, 2000, as cited in Barrientos et al. 2010: 7). This may include better work resulting from economic upgrading, as well as enhancing working conditions, protection, and rights (ibid.). This notion aims to understand living standards and work conditions over time (Milberg and Winkler 2008: 8). It is worth noting that the discussions on economic and social upgrading may take different level of analysis, including micro (individual firm), meso (sector), and macro (country).

In macro-level discussions, Milberg and Winkler (2008: 2) provide a matrix of four possible paths of economic and social upgrading. As shown by Figure 3.3., there is possibility that economic upgrading is followed by (1) social upgrading (high-road growth) or by (2) social downgrading (low-road growth). Moreover, it is possible that (3) social upgrading takes place without the presence of economic upgrading (high-road decline) or that (4) economic and social downgrading appears hand-in-hand (low-road decline). Scenarios (1) and (2) are
the realms of the contention between neoclassical and institutionalist perspectives, as explained below. Scenario (3) is more or less inspired by literature on plant-level monitoring, which argues that ‘social upgrading can be attained through regulation and monitoring and thus does not require economic upgrading or even economic growth as a prerequisite’ (ibid.: 37). Although this matrix seems to be sophisticated, the proposition that it puts forward needs to be considered cautiously. As Milberg and Winkler (2008: 4) recognise, the term ‘downgrading’ needs further elaboration. Barrientos et al. (2010: 16) argue that certain choices could be perceived as ‘social downgrading’ by some actors, but not others. For example, a choice by a smallholder to enter a wage job in a farm can be considered as social downgrading because of the loss of independence and accessibility to land. However, if this choice is made by a female worker, who used to work in unpaid family labour, the entry to wage labour reflects improvement in terms of access to wages.

**Figure 3.3.: Economic and Social Upgrading**

<table>
<thead>
<tr>
<th>Economic Realm</th>
<th>Social Realm</th>
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<tbody>
<tr>
<td>Upgrade</td>
<td>High-road growth</td>
<td>Low-road growth</td>
</tr>
<tr>
<td>Downgrade</td>
<td>High-road decline</td>
<td>Low-road decline</td>
</tr>
</tbody>
</table>

Source: Milberg and Winkler (2008: 2)

In these macro-level discussions, the GPN analysis proposes a contesting argument to the perspective of neoclassical and Keynesian economics. On economic growth and social upgrading, neoclassical economics views economic and social upgrading as endogenous process to economic growth. The GPN approach, by comparison, holds the view that economic upgrading occurring in one sector does not necessarily spill over to the rest of the economy, and that GPNs are steered by lead firms, which implies that productivity gain may be absorbed into transfer of profits to lead firms (Milberg and Winkler 2008: 3). On these two contending arguments, Milberg and Winkler (2008) reveal that the relationship between these two types of upgrading is ‘much less tight’, implying a support on the argument proposed by the GPN approach. This means that pro-growth policies alone are not sufficient and that it is significant also to adopt
policies that will support social upgrading. Barrientos et al. (2010: 14–15) argue that there is no strong evidence that economic upgrading is necessarily followed by social upgrading. They maintain that competitive pressures, in terms of maximising quality and minimising costs, might pave the way for employers to combine economic upgrading with social downgrading.

The GPN analysis on social upgrading, particularly on labour situations, is at two levels (Barrientos et al. 2010: 5). First, the GPN framework analyses labour as productive labour, following conventional economic theory. It takes into account workers as productive agents in the meso-level (sectoral level). Central to discussions in this level of analysis is the need to meet both cost pressures and quality standards (Barrientos and Kritzinger 2004, as cited in Barrientos et al. 2010: 5), which shape the labour intensity and skill levels at different nodes within and between GPNs. Second, the GPN approach examines workers as social agents, which underscores workers’ wellbeing (Sen 1999, 2000, as cited in Barrientos et al. 2010: 5). In this case, wage labourers’ access to rights can be affected by their participation in GPNs. Beyond these two levels of analyses, the GPN framework recognises two important challenges. First, ‘the quantity and type of employment by individual supplier firms are affected not only by national labour market conditions, but also by requirements dictated by foreign agents or buyers (in relation to product quality, price, and delivery schedules)’ (ibid.). Second, besides national labour regulation, labour codes of large global buyers and private systems of monitoring and auditing also affect the quality of employment.

As mentioned, social upgrading allows us to capture living and working conditions over time. The most general operationalisation to living and working conditions is employment and pay/wage (Milberg and Winkler 2008: 8). Two contending perspectives are relevant in this discussion (ibid.). Neoclassical theorists hold the view that labour demand (which shapes wages) is related to technology, whereas institutionalists perceive wage as the result of the bargaining process between employers and workers, with labour market institutions (e.g., minimum wage, collective bargaining protections) playing an important role. Further, operationalisation sometimes refers to ILO Core Labour Standards (CLS); four pillars of decent work (i.e., employment, social protection, workers’ rights, and social dialogue); and the 11 groups of indicators suggested by Anker et al. (2002; i.e., employment opportunities, unacceptable work, adequate earnings and productive work, decent hours, stability and security of work, combining work and family life, fair treatment in employment, safe work environment, social protection, social dialogue and workplace relations, and economic and social context of decent work).

Social upgrading can be classified into measurable standards and enabling rights (Elliot and Freeman 2003; Barrientos and Smith 2007, as cited in Barrientos et al. 2010: 7). Examples of measurable standards are employment (regular and
irregular), wage level, social protection, and working hours. These are aspects that are more easily observable and quantifiable. It is, nonetheless, important that these measurable standards can be the outcome of enabling rights, such as freedom of association and the right collective bargaining, non-discrimination, voice, and empowerment.

The position within value chains, type of work carried out, and the status of workers in any work category shape economic and social upgrading (downgrading; Barrientos et al. 2010: 8). Based on this proposition, Barrientos et al. (ibid.: 10) develop typology workforce composition across sectors in GPNs. Figure 3.4 shows how GPNs can involve different combinations of low-skill, labour-intensive, and higher-skill technology-intensive work. In addition to the type of work carried out, the status of workers also has implications on their ability to benefit from or participate in economic and social upgrading (ibid.: 11). In this regard, regular workers enjoy legal employment protection and benefit from measurable labour standards as they have stronger attachment with the employer than the irregular workers. Barrientos et al. (2010: 12–13) also sketch the key elements of economic and social upgrading (downgrading) based on the types of work. In doing so, they attempt to understand how the position of workers within different types of work and status of employment provide the context for social upgrading and underline the interplay between economic and social upgrading.

With such promising analytical tools, however, the GPN approach has not yet given sufficient attention to labour relations in GPNs. So far, the concept of social upgrading has been the main domain to include labour issues in the GPN approach. Despite the early attempt to explore enabling rights, the discussions on social upgrading essentially put emphasis on labour as a subject which bears the impact of the global production coordination and thus perceive labour as a passive agent (Rainnie et al. 2011: 156; Coe and Hess 2013: 5). Unsurprisingly, recent critic insists that the approach of the GPN literature remains similar to that of the other chain frameworks, that is, essentially placing firms as the vantage point (Selwyn 2016). This indicates urgency for the GPN literature to draw theoretical insights from other literature on labour, especially those focusing on labour relations and labour power. Recent attempts to concentrate on labour issues in GPNs are undertaken by understanding the collective power of labour in the GPN, whereas the focus on reproduction of labour or the position of labour in value creation, enhancing, and capturing remain relatively unexplored. Essentially, labour relations in GPNs should be understood within the framework of GPN struggles, which shape how various actors are inserted in the GPNs (Neilson and Pritchard 2009, as cited in Lund-Thomsen 2013: 72). Here, GPN literature may need to have a conversation with the other bodies of literature on labour issues.
As mentioned earlier, the GPN approach covers workers’ power through its concept of collective power. Wright (2000: 962) proposes two types of workers’ power, namely, structural and associational power. By structural power, Wright refers to the workers’ position in the economic system. Wright defines associational power as ‘the various forms of power that result from the formation of collective organisation of workers’. This definition seems to be closely linked to the GPN conceptualisation of collective power. Structural power consists of two subtypes of power, namely, workplace and marketplace bargaining power (Silver 2003). Marketplace bargaining power ‘results directly from tight labor markets’ (ibid.). Workplace bargaining power results ‘from the strategic location of a particular group of workers within a key industrial sector’. Marketplace bargaining power can result from: (1) the possession of scarce skills demanded by employers; (2) low levels of unemployment; and (3) the ability of workers to withdraw from the labour market and survive on non-wage sources of income. With her extensive description on the workers’ movement during the nineteenth, twentieth, and twenty-first centuries, Silver (2003: 94) argues that realising certain types of power possessed by the workers is important in selecting the workers’ strategy. If one of the two types of workers’ power is weak, then workers shall strengthen and utilise the other type of power.
workers’ power. Learning from the case of labour unrests in the textile industry during the nineteenth century, Silver points out that the weak structural bargaining power of workers in this industry explains workers’ militancy, and thus its strong associational power. On the other hand, workers in the auto industry have the capacity to organise based on a relatively stronger structural power (e.g., workplace bargaining power). It is argued that the link between structural and associational power also needs to be discussed by considering the balance of class forces between capital and labour (Selwyn 2012: 221). This suggests an investigation of the labour regime, as will be explained in the next section.

Scholars then extend sources of workers’ power proposed by Wright, for example, by introducing the concept of symbolic power (Fine 2006; Chun 2005; Von Holdt and Webster 2008). It is argued that ‘Symbolic power, like structural power, is articulated with associational power, and may provide new sources of power to labour movements battling with the loss of older and more traditional sources of power in the labour market or the workplace’ (Von Holdt and Webster 2006, as cited in Webster et al. 2008:12). Symbolic power, according to Webster et al. (ibid.) is a subtype of associational power, in which ‘it draws strength from taking moral claims in the workplace and articulating them as general social claims’. Meanwhile, a logistical power is a subtype of structural power resulting from the production coordination that provides space for workers to disrupt the system.

Silver (2003) describes how the attempt of capital to pursue spatial, technological, and product fixes has been a response to, and been followed by, labour unrests. Two types of labour unrests are identified (ibid.: 20). The first one is Polanyi-type labour unrest, which refers to ‘…the blacklash resistance to the spread of a global self-regulating market, particularly by working classes that are being unmade by global economic transformations as well as by those workers who had benefited from established social compacts that are being abandoned from above’. The second is the Marx-type labour unrest, which is defined as resistance from the newly emerging working classes as an outcome of the development of historical capitalism.

According to Silver (2003: 24), the hypermobility of capital undermines marketplace and associational power, while the ‘post-Fordist’ organisation of production undermines workers’ workplace bargaining power. This is very important, as GPNs feature this so-called ‘post-Fordist’ organisation of production. This implies a point of departure for how the two bodies of literature may provide insights to each other. For instance, one could explore the links between the restructuring of GPNs and workers’ power (Coe and Hess 2013: 5). Chan et al. (2013) argue that the participation of Asian manufacturers into GPNs, tight delivery schedules, and the growing shortage of young workers have increased workers’ bargaining power in China.
While the literature on labour power mentioned earlier has been useful in identifying sources of labour power in GPNs, it does not problematise the geographies of labour power, indicating a salient analytical gap in GPN literature – as the latter regards space, place, and scale as important analytical points. Here, the field of labour geography may provide substantial insights. As will be explained later, the concepts of labour agency and labour regime are central to labour geography’s analysis of the geographies of labour power.

The emergence of the labour geography discipline is a response to the proliferation of economic geography in the latter’s interest in analysing capital’s spatial fix. Labour geographers argue that labour also exerts its capacity to influence the landscape of capital, though with conditions not of their own choosing (Coe and Jordhus-Lier 2010: 11). Labour geography literature argues that ‘workers, too, are active geographical agents whose activities can shape economic landscapes in ways that differ significantly from those of capital’ (Herod 1997: 3). This allows an important theoretical insight for discussing capital and labour relations in GPNs as they, among others, depend on spatial dimensions (Anderson 2009: 966).

Herod (1997) proposes four theoretical attempts in this field of labour geography. First, it is not only capital that actively shapes the geography of capitalism, and labour is not merely a factor of location. Second, workers’ social actions have something to do with the implementation of workers’ vision of certain geography of capitalism that allows their own self-reproduction and social survival. Borrowing Harvey’s concept of ‘spatial fix’ (1982), Herod puts forward the concept of ‘labour’s spatial fix’, which refers to workers’ attempts at creating spatial fix in their own image (Herod 1997: 17).

Third, concentrating on labour’s spatial fix paves the way to ‘a more deeply political theorization of the contested nature of the production space under capitalism’ (Herod 1997: 17). As such, it allows an analysis of whose labour’s spatial fix is actually set. Fourth, Herod draws our attention more into the scales aspect, as he puts it: ‘I would argue that working class people, too, play their part in the generation of such scales and, hence, in the making of unevenly developed geography of capitalism’ (ibid.: 18). As such, unions’ attempts to influence local and national contracts with employers not only might change the economic development as a whole, but also shape the location of work as a result of employers’ strategies to avoid such local or national development.

While some labour scholars hold that the labour agency is exercised at a certain scale and moves from one scale to another (i.e., upscale or downscale), labour geographers put emphasis on the interdependence of different scales of labour agency (i.e., multiscalarity of labour agency; Castree 2000). The former

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14 According to Harvey (1982), spatial fix demonstrates geographical expansion and restructuring of capital as a way to overcome its inherent crises.
consideration might be confined in the argument that a certain scale is superior to others (e.g., labour internationalism), whereas the latter perception insists on the salience of each scale of labour agency.

All in all, the intention of labour geographers in bringing in the topic of labour agency is to ‘reconnect accumulation and reproduction of capitalism to workers’ own practices of survival and social reproduction’ (Carswell and De Neve 2013: 63). This implies dialectic relations between labour and capital, rather than perceiving capital as the dominating actor and labour as the passive and responsive agent. For the GPN approach, these theoretical insights on labour agency allow scholars to bring labour back into the heart of the analysis, not only as a source of value, but also as subjective agent (Rainnie et al. 2011: 161). This implies, as Selwyn (2012) puts it, a conceptualisation of capital–labour relations as an organic co-determinant of capitalist development.

Agency of workers is defined as ‘strategies that shift [the] capitalist status quo in favour of workers’ (Coe and Jordhus-Lier 2010: 8). In analysing labour agency, labour geographers may take different units of analysis, be it individual or collective workers. Bezuidenhout and Buhlungru (2010: 257–8) argue that labour agency ‘can be formal or informal, individual or collective, spontaneous or goal directed, sporadic or sustained, and it can operate on different scales’. If the unit of analysis is individual workers, the agency is conceptualised as a varying capacity of influence exercised by individual workers. In this case, labour geographers often draw insights from Katz’s (2004, as cited in Carswell and De Neve 2013) classification of agency, namely resilience, reworking, and resistance. Resilience is driven by limited consciousness of oppression relations, whereas reworking and particularly resistance are driven and, ‘…(re)produce critical and oppositional consciousness of the hegemonic powers at work’ (ibid.: 63). The acts of resilience refer to everyday coping strategies; the acts of reworking imply attempts to change the relation of production from within; and the acts of resistance means directly challenging capitalist social relations (Coe 2012: 2). At an individual level, workers may at least exercise their agency in terms of resilient acts. These varying units of analysis show how a worker may embrace different (single or multiple) means in exercising his or her agency. Furthermore, this conceptualisation of agency allows scholars, for example, to associate migration decision as a form of agency exercised by individual workers (Rogaly 2009: 3–5).

In terms of collective workers, the theme of labour agency has mainly featured the literature on unions and unions’ power. Not only does the analysis coincide with the concept of workers’ associational power, but it also corresponds to literature on labour internationalism. An important contribution of labour geography on this theme is the analysis on scales in which unions may exercise their collective power, as unions are scale-producing institutions (Aguiar and Ryan 2009; Castree et al. 2004). These different levels of scales may involve
workplace, community, city, region, and global, each of which is historically created and embodies highly related social dimensions (Anderson 2009: 960; Oseland et al. 2012). The GPN literature may also have conversation with the literature on labour internationalism, and labour geography in the analysis of how multi-actor GPNs provide scale and opportunities for unions to exercise and strengthen their collective power (ibid.; Coe and Hess 2013; Evans 2010). In doing so, the GPN approach firstly helps identify workers’ positions in GPNs (e.g., some workers might be in more privileged positions than others), and in turn explores the ‘variegated landscape for agency’ (Coe and Jordhus-Lier 2010: 11). This topic can be connected to discussions on workers’ structural power, which among others is related to workers’ skill level. The relational take of the GPN approach on labour agency also implies that the successful exercise of agency in one place can have unintended adverse effects somewhere else that eventually hampers workers’ solidarity, hence nurtures rising competition of workers in different places (Sweeney and Holmes 2012).

The spread of GPNs explains the pressures from collective workers to put forward Global Framework Agreements (GFAs). Negotiated by sectoral organisations of international unions, GFAs establish ‘…a transnational arena labour-relations by defining the content, selecting the actors, delineating the processes and setting the scope of labour-management interaction’ (Helfen and Fichter 2013: 554). In this case, GFAs shape the formation of Transnational Union Networks (TUNs) consisting of Global Union Federations (GUFs), their national affiliates, works councils, and possibly non-union supporters (ibid.: 555). GFAs and the TUNs reflect how workers collectively attempt to shape global labour regime (ibid.). The spatial dimension of GFAs manifests in the reference to suppliers, subcontractors, and other business partners of the signatory TNCs. GUFs operating with GFAs and TUNs allow international labour solidarity to: (1) identify certain strategic nodes of GPNs; (2) select certain issues for their agenda; (3) identify and mobilise the necessary resources of power (ibid.: 560). The emergence of TUNs is also highlighted by Evans (2010), who emphasises NGO-union alliances in transnational campaigns. Some works in this issue refer to transnational advocacy networks (TANs), concentrating on the ‘boomerang effects’ resulting from the alliance between labour in the South and Northern NGO alliances (Wad 2013). Here, Wad (2013: 55) refers to labour capability in establishing organisational and network capacity as strategic power. Fichter and Sydow (2012) distinguish between TNC-centred TUNs and GUF-centred TUNs based on temporal perspective (long-term vs. short-term) and functional perspective (representational vs. organising).

The organisation of GPNs may pave the way for workers’ fragmentation as a result of outsourcing and subcontracting practices. While this may hamper the trade union movement, it also implies a search for new forms of organising.
Recent studies point out the emerging form of community unionism as an alternative for labour organising (Wills 2009). Discussions on community unionism shed light on struggles that are going on beyond the workplace, showing the link between associational and symbolic power.

Selwyn (2011) argues that public–private standards, together with the strategic position of a sector in GPNs, may improve workers’ structural power, which could eventually be mobilised to increase their associational power. Lund-Thomsen and Coe (2013) contend that corporate social responsibility (CSR) policies may help enhance labour agency, while also taking into account wider forces of global economy as well as relationships with local actors and regulatory contexts.

Similar to labour agency of individual workers, horizontal and vertical dimensions interconnect with each other in shaping (i.e., facilitating or constraining) labour agency of collective workers. Exploring this link corresponds to discussions on labour regime in analysing labour agency. Oseland et al. (2012) argue that labour agency on a national scale is shaped by labour networks, state regulation, and public discourse. Riisgard and Hammer (2011) claim that associational power is shaped by both local institutional contexts and GPN structures. Wad (2013) proposes the Global Labour Network (GLN) approach, which mainly takes a closer look at the depth of labour networks (defined as integrated and institutionalised relations between employees and labour organisation), social domains or arenas of manoeuvres, and the geographical scales of the networks. According to Wad (2013: 55), the linkages between the horizontal (key institutional relations) and the vertical (value chain relations, main sensitive points of corporate governance) may give strategic opportunity for workers exercising their agency.

Furthermore, analysing labour agency on collective workers also allows scrutiny on unions’ positions within international labour solidarity. This is justified by Cumbers et al. (2008: 373), who argue that ‘unions are not monolithic entities but instead are themselves the site of class struggle, composed of multiple positionalities in relation to capital’. Additionally, discussing labour agency of collective workers may also relate to multi-stakeholder approaches in GPNs, particularly in the issue of private voluntary regulation. One of the key questions here is whether building alliance with other GPN actors (e.g., NGOs) may enhance labour agency of collective workers. Whereas NGOs may provide necessary resources (e.g., knowledge, context sensitivity) for workers in exercising their collective powers, they may also take sides with the corporations as a result of the former being ‘too comfort[able]’ when engaging with the latter (Baur and Schmitz 2012, as cited in Lund-Thomsen and Coe 2013: 8).
The above discussions show that three aspects are essential in discussing labour agency from the point of view of labour geography (Coe and Jordhus-Lier 2010: 8–10). The first aspect is space. This refers to the position of workers in the geography of capitalism and how it shapes labour agency. Here, workers may resort to certain sources of power (e.g., structural power, associational power) depending on their position in GPNs. Bringing back the analysis of capital–labour relations into the GPN approach, Selwyn (2011) proposes identifying workers’ structural power in GPNs in order to mobilise their associational power, which in turn will allow them to actively shape the socio-spatial economic landscape favourably for the workers. The second aspect is political scale. This aspect captures the double nature of labour agency: not only does labour agency shape the spatial landscape of social geographies, but it is also a spatial phenomenon in itself. This implies how political scale reflects the spatial character of conditions and strategies of labour agency. The third aspect is place, which might refer to workplace, workers’ residences, and/or the neighbourhood of these two. Here, the concept touches the material landscape where workers live and work. The issue of workers’ residence becomes important, as workers tend to be rooted and reproduced with specific characteristics, and their consumption is partly shaped by local cultural meanings (Kelly 2013). These three aspects demonstrate how labour agency should be understood in the sense of an embedded nature of social relations of production (Riisgaard and Hammer 2011: 170). These aspects are also connected in such ways demonstrated by structure–agency theory. As proposed by Anthony Giddens, agency is not only facilitated or constrained by structure, but it also actively shapes it. Space is perceived as an inherently dynamic social relation (Massey 1994, as cited in Flather 2013: 345), and thus can be conceived, experienced, and used differently by users at different times (Flather 2013: 346). As such, the intersection between horizontal aspects (e.g., gender, age, religion, social status) becomes central in the analysis of labour agency.

However, it is criticised that agency in labour geography remains ‘under-theorised’ and ‘under-specified’ (Castree 2007: 858). This criticism highlights the gap in current research in labour geography, which focuses very much on reporting what workers have done as well as their successes or failures, and thus is not extended to an analytical assessment of the enabling or disabling conditions for the success or failure of the agency. Responding to Katz’s (2004) classification of agency, Coe and Jordhus-Lier (2010) argue that it remains unclear whether such classification refers to what workers attempt to do or to what they accomplish. Furthermore, apart from the socio-spatial dimensions, the temporal dimension of labour agency deserves sufficient attention (Anderson 2009: 966; Coe and Hess 2013). This might refer to the timing of gains from exercising labour agency as well as to the learning processes for the respective workers, unions, employers, and state (Coe 2012: 3). Coe and Jordhus-Lier
(2010: 10) argue that it is important to underline the timing of agency. For instance, labour agency is influenced by business cycles through shorter fluctuation in the economic system (Gogh 2003, as cited in Coe and Jordhus-Lier 2010:10). During this period, GPN reconfiguration may entail permanent restructuring, which leaves workers with no option but to cooperate with the capital (Siemiatycki 2011). Additionally, as much as they provide a new landscape of opportunities for workers to exercise their agency, GPNs also serve as a structure that constrains labour agency. This consideration then may prevent labour scholars from overemphasising the ability of workers in shaping the landscape of capitalism (Mitchell 2011). Recent critics highlight the lack of broader interpretation of the rationales behind workers’ acts, suggesting for a focus on moral geographies implicit to workers’ struggles (Hastings 2016). Finally, the academic contribution made by labour geography literature into the scholarships of labour study has been appreciated, as the literature has challenged the formal workplace as a site of value production, exploitation, and class, which in turn produces important insights on active agency and the differentiated nature of labour, workplace, and class (Rutherford 2010). Nonetheless, it remains important for labour geographers to maintain formal workplace and wage relations as the site of labour exploitation for the sake of class consciousness (ibid.). This is parallel to the recent elaboration on global poverty chains, which was proposed as criticism to the GVCs and GPN concepts (Selwyn 2016). The global poverty chains concept reflects on the process of capitalist development involving national states and firms through establishment of large labouring classes and control of their systematic exploitation. Here, national capitalist development is dictated by the transformation of class relations. In other words, class relations still matter, and thus capital–labour relations should remain at the centre of the analysis.

Another key issue is the link between the spheres of production and reproduction in analysing labour agency (Webster et al. 2008: 5–21). Literature on labour agency has focused more on discussing labour agency in the sphere of production (e.g., labour market) and thus has undermined the sphere of reproduction and how this shapes labour agency. This calls for more attention on how reproduction, livelihoods, and social relations influence workers’ decision-making and agency potential (Carswell and De Neve 2013: 64). This also serves as an important issue for the GPN approach, as it is also interested in analysing the social reproduction of labour. Here, the link between the spheres of production and reproduction in understanding labour agency can be explored under the concept of labour control regime, which will be explained in the subsequent section.
3.3.1.1. Local Labour Control Regime

One of the several important aspects in scrutinising labour agency is labour control regime. Labour control regimes are required to sustain accumulation (Cumbers et al. 2008: 373). Meanwhile, it shapes (and is shaped by) labour agency. Selwyn (2011) contends that employers may agree to certain better working conditions with the aim to limit workers’ associational power (e.g., limiting the influence of the unions on employers’ accumulation strategies). As such, in order to understand the capacity of agency, including its potential, exercised by labour, it is necessary to have a careful analysis of labour control regime. Riisgard and Hammer (2011) argue that certain value chain configurations interact with local labour control regime differently from the other configurations through the ways in which it integrates the local labour market. Some proponents in labour geography use the term local labour control regime. In this case, it is important to assert some relevant terms, namely factory regime, workplace regime, and labour regime. Here, scholars in labour geography integrate labour process theory approach in the analysis of the geographies of workers’ struggles (Hastings 2016: 310).

The concept of factory regimes is introduced by Burawoy (1985). This concept embraces the politics of production constituting political effects of labour process and political apparatus of production. The former points to the organisation of production, which includes the relation between capital and labour. Political apparatus of production refers to institutions that shape labour struggle, including the influence of the state on the organisation of production. Burawoy proposes five types of factory regimes, namely, the company–state regime; the regime of market despotism; the regime of bureaucratic despotism of state socialism; the hegemonic regime; and the regime of hegemonic despotism. This distinction of factory regimes is based on four important factors—the labour process; competition between firms; the reproduction of labour power; and state intervention. As such, Burawoy attempts to connect the micro-politics of the workplace with the macro-politics of the state (Knutsen and Hansson 2010).

Burawoy’s attempt in explaining the social relations in production can be linked to the works of the Regulation School. The Regulation School has built a corpus of literature on regimes of economic accumulation and social regulation. For instance, it proposes a Fordist regime of accumulation, which is allegedly followed by the new post-Fordist regime. The latter contains new forms of economic organisation, which among others is associated with the rise of new hubs for competition (e.g., East and Southeast Asian countries) in the global economy.

Built on the work of Burawoy, some scholars propose concepts of local labour control regimes (Jonas 1996, 2009) and labour regimes (Andrae and Beckman...
According to Jonas (1996: 325), local labour control regimes are understood as a ‘...historically contingent and territorially embedded set of mechanisms which co-ordinate the time-space reciprocities between production, work, consumption and labour reproduction within a local labour market’. This shows a conceptualisation that also deals with consumption and labour reproduction, parallel with the aspects of the GPN approach. Jonas (1996) argues that local labour control regimes emerge from the contradiction between spatial mobility of capital and the imperative of capital to embed within certain localities. Lund-Thomsen (2013: 75) refers this concept to the dilemma between international capital needing to extract rent from certain regions and the need to maintain political, social, and economical stability in the respective areas. Castree et al. (2004:115, 116) argue that the term of local labour control regime is useful to recognise the role that space plays in the interaction between firms, workers, and states, while at the same time they are interdependent in multiscalar processes. While coinciding with the concept of factory regimes, the concepts of local labour control regime and labour regimes are more scale-conscious (Knutsen and Hansson 2010: 156) and put emphasis on the local dynamics of the regimes (Magnusson et al. 2010: 173). This is in contrast to Burawoy’s ideal types of factory regimes, which may exist at any geographical scale. Furthermore, Kelly’s (2002) work contributes to the discussions about how control is exercised at certain scales (i.e., the individual, the factory, industrial enclave, and the spaces of migration flow), each of which is socially constructed. In sum, the concept of local labour control regime showcases the aspects of space, scale, and place more prominently.

Knutsen and Hansson (2010) operate with the concept of labour regime and link it with welfare and political regimes. Bringing in the latter concepts, reflects the attempt to analyse the influence of macro-politics on labour regime. At the same time, paying attention to spatial embeddedness of the interplay between capital, labour, and state substantiates the micro-politics of labour regime. In macro-politics, Magnusson et al. (2010) take into account the dominating ideology, hegemony, historic bloc, and resistance between dominating and dominated classes, drawing from the Gramscian approach. Analysing how these aspects shape micro-politics in the workplace, they set forth a distinction between a workplace regime of consent and that of abusive partnership. Taking the case study of mining workers in South Africa, Bezuidenhout and Buhlungu (2011) focus on the body and compound as micro-politics of control, and connect this with the apartheid and post-apartheid political landscapes as the macro-politics aspect. Rejecting a ‘top–down’ account of control that the concept of local labour control seems to propose, a recent study by Hastings and MacKinnon (2017) works with the concept of workplace control, and argues that it involves an on-going dialectical process of interaction and negotiation between management and labour. All in all, linking labour regime with macro-politics...
not only disentangles labour agency, but also problematises the structure of the capitalist system.

**Figure 3.5.: The ‘scaling’ of labour regimes**

Space is a source of power (Castree et al 2004: 116; Bergene et al. 2010: 4–5) as it depicts the society and serves as an important base for the functioning of the society. In this regard, local labour control regime acts as a container of several
aspects through which power relations operate. This also contributes into varying combination of agency that actors involved in the local labour control regime may exercise.

Figure 3.5. shows how local labour control regime is located in a more global framework. While proposing the scheme, Castree et al. (2004:131) acknowledge the tendency of ‘hegemonic despotism’ at a global level, but contend that there are variations in institutionalising labour rights at a regional level. Furthermore, at the national level, different institutional and cultural histories shape the variety of the given country’s ‘despotic’ tendencies. At the local level, variations are even more specifically place-based, in that ‘…no two local labour control regimes are exactly alike’ (ibid.: 133), which hence poses varied opportunities and challenges for workers in exercising their agency. Pattenden (2016) proposes a three-way labour control regime framework, which includes: (1) macro-labour control regime; (2) the local labour control regimes; and (3) control within the labour process. Macro-labour control regime, as referred by Pattenden, features capitalist relations of production, which puts emphasis on the process of accumulation based on exploitation. Similar to macro-labour control regime, control within the labour process also serves as relations of production, except that it demonstrates the immediate relations of exploitation. Here, according to Pattenden, the local labour control regime serves as an intermediate component, underpinning the interplays between the general forms of domination and the actual forms of exploitation at the level of production.

In conceptualising labour control, Castree et al. (2004: 136-140) propose looking at firm and state strategies. The former includes technological change, intensification of working practices, de-unionisation, concessionary bargaining, and selective recruitment and worker migration. State strategies comprise ‘external’ macro-economic deregulation, re-scaling of economic competition, ‘internal’ labour market de-regulation, rolling back of welfare support, privatisation and downsizing the public sector. Coe and Jordhus-Lier (2010: 13) contend that the state also plays a role in shaping ‘…who is a worker, and what it means to be a worker for particular individuals and groups of people’. This results in labour market segmentation and identity construction, which in turn shapes labour agency (Rodriguez and Mearns 2012). Coe and Kelly (2002) conclude that the state may employ discursive strategies in shaping viable options open to the participants of labour system. Selwyn (2012: 212) argues that specific configurations of capitalism can be explained by analysing the interactions between processes of labour regime and local, national, and global capitalist development, facilitated by: (1) commodity specialism; (2) class conflicts, the balance of class forces and the institutionalisation of class struggles; and (3) the role of the state as a guarantor of capital accumulation. Aspects 2 and 3 essentially imply a historical analysis on what shapes the institutional contexts in which GPNs are embedded. Quoting Jessop (2008:
Selwyn (ibid.: 217) argues that the state is involved in constituting institutions, which shapes the behaviour of the citizens, and simultaneously reproduces state power and guarantees the process of capital accumulation. This also includes shaping the constitution of agents, identities, and strategies. Rather than a narrow institutional setting of labour regulations, this conceptualisation implies that a broader institutional setting shapes labour agency. These institutions are mainly the result of struggles between capital and labour, which concretely imply the scrutiny on interactions between commodity production, emergent social relations of production, and the attempt of the state to manage these processes (ibid.: 218).

Meanwhile, Kelly (2001) suggests analysing the role of several actors in shaping labour control regime, namely, national agencies, corporate investors, industrial estate management companies, recruitment agencies, village/community leaders, municipal governments, provincial governments, factory workers, and labour organisations. Analysing export-oriented industries in developing economies, Lund-Thomsen (2013) looks at the existence of gendered economies, the spatial location of workers, livelihood strategies, and modes of recruitment. All these aspects are applicable in the case study of the manufacturing sector. A study on service or agricultural sectors may hint at a different configuration of actors.

Linking the micro-politics of control (the body, compounds) with macro-politics (apartheid and post-apartheid political regime) in analysing labour regime in mining in South Africa, Bezuidenhout and Buhlungu (2011) distinguish four forms of control, namely, spatial control, reproductive control, associational control, and political control. Spatial control refers to control on movement of workers in and around compounds. Reproductive control refers to control on reproductive aspects (e.g., sexual intercourse, food intake, personal hygiene, leisure time). Associational control refers to control on interaction among workers, including forming self-organisation such as unions, sports, religion, and leisure. Political control refers to the incorporation of force and coercion into company activities. All these forms of control sum into normative-corporal order, which contain elements of ideological legitimisation and regulation of actual bodies.

Riisgaard and Hammer (2011) argue that GPNs interact with the local labour market in such ways that might enhance or undermine power relations between capital and labour. This essentially links to workers’ structural power. Meanwhile, the local labour market corresponds to migration flow of workers, which brings up the issue of workers’ identities and how this articulates with employment relations and the local labour regime (Coe and Jordhus-Lier 2010: 2). Workers’ identities are associated to spaces and scales that workers inhabit (ibid.: 8). This shows how the local labour market is socially and spatially constructed (Sportel 2013).
The issue of identities also reminds us of how race and gender are played out in the landscapes of labour geographies. Race and gender inequalities are inherent to social settings and material lived realities across geographies, and thus become organising principles of GPNs (Christian 2015: 26). This implies two interrelated processes. First, it indicates how firms in GPNs benefit from the existing entrenched, gendered, and racial territorial divisions through the so-called ‘gender and race disarticulation practices’ (Christian 2015). Second, it highlights how social differences underpin labour segmentation, which in turn shapes labour agency. Together with the GPN literature, labour geography literature allows scholars to explore vertical (GPNs) and horizontal (e.g., race and gender) links that both constrain as well as enhance labour agency at the individual level (Rogaly 2009).

The above explanations demonstrate how the issue of power and labour relations may be approached in the GPN framework. As explained, this requires theoretical elaborations between the GPN approach and various literatures on labour studies, including labour geography. Selwyn (2012: 222) argues that in order to understand this issue, we should recall that capitalism is based on two fundamental mechanisms, namely: (1) competition between capital (which underlies the configuration of GPNs); and (2) the exploitation of labour. This implies a dynamic configuration of GPNs (e.g., finding new zones of production) and the making and unmaking of working classes.

3.4. Conceptualising Power in the Global Production Network Approach

As mentioned, the GPN approach takes a relational view of power. According to this view, power stems from social relationship. This implies an analytical focus on the bargaining power of GPN actors. Moreover, such a relational view of power infers the conceptualisation of power as something contingent. In view of that, conceptualising power in the GPN approach starts with identifying sources of bargaining power available for actors in GPNs (i.e., firms, labour, state, and other non-firm actors). In particular, it is important to outline the material and discursive dimensions of power for these actors. In the material dimension of power, structural power is also a subtype of power that has often drawn the attention of power theorists. Structural power refers to the capacity relating to the constitution of social relations, which produces ‘…the very social capacities of structural, or subject, positions in direct relation to one another, and the associated interests, that underlie and dispose action’ (Barnett and Duvall 2005: 53). It is worth mentioning the dialectical process between structural power and actors. As for the discursive dimension, power here is perceived as productive, in which power is not seen as a resource belonging to actors; rather, it is incorporated in numerous practises, norms, values, etc. (Barret 1991:135, as cited in Cooper 1994: 437). As such, it will be misleading if one attempts to
identify sources of bargaining power when tackling the discursive dimensions. Instead, we should concentrate on the means of exercising power. Table 3.2 describes how these two dimensions can be conceptualised.

As mentioned, the GPN literature puts forward the term corporate power. Following Yeung (2014) on the causal drivers of GPNs, this can be disaggregated into, for instance, financial power and technological power (i.e., know-how), which fall into material sources of power. Firms may also exercise their power through private voluntary governance. This may imply voluntary codes of conduct and/or in the form of multi-stakeholders approach. Firms could also collectively mobilise power by forming business associations, usually aimed at shaping policies related to their economic operations. Another important type of corporate power in GPNs is market power, which is often seen as the attribute of lead or focal firms. It is argued that the ability to mobilise financial, technological, and economic power allows a lead firm to achieve market power. Market power can be perceived as structural power, as it shapes the capacities and conditions of other firm actors in GPNs, and eventually may sustain the power of the lead firm. The discussions on economic and/or industrial upgrading in GPNs, for example, cannot be divorced from the debates on market power of lead firms. Analysis of market power can also draw insights from the neo-Gramscian approach in linking GPNs with wider contexts of neoliberal ideologies and institutions (Levy 2008: 4–5).

As mentioned, one role of the state is to provide a regulatory environment. Such institutional power affects capital–labour relations as well as roles played by firms and other non-firm actors. Institutional settings also affect labour regime, which in turn shapes labour agency. Moreover, the institutional power of the state can also be linked to the structural dimension of neoliberal institutions, for example, the dynamic bargaining process between the states and global firms.

As explained in the previous section, the notion of labour’s spatial fix allows for an analysis of the role of workers in shaping the geography of capital, including the GPNs. As production plants or factories must be embedded in specific locations, it facilitates terrains where workers may exercise their individual and/or collective agencies. As shown in Table 3.2, labour agency at the individual level is practised in workers’ daily lives. The exercise of workers’ collective agency correlates to the concept of workers’ associational power. Private voluntary governance may also allow the influence from workers. For example, labour unions may participate in the setting and enforcement of voluntary codes of conduct or play as one of the key actors in a multi-stakeholder approach for private voluntary governance. Meanwhile, both workers’ marketplace and workplace bargaining power can be classified into a structural dimension of power sources. It is worth mentioning that these aspects of material sources of workers’ power are closely interlinked with the discursive dimensions, namely, labour regime. Here, practices at the workplace and a wider
local context establish a dialectical relation with the material dimensions of sources of workers’ power.

Collective power may also be mobilised by NGOs, pressures groups, or think tank communities. For instance, they provide opportunities for labour to establish alliances in order to advance pressure towards firms and states. In many cases, labour organisations are very much driven and supported by these groups and thus the existence of the latter is salient for labour to exercise its collective power. These groups may also be involved in the multi-stakeholder approach for private voluntary governance. Here, they play a key role in shaping the regulatory environment.

Within the discursive dimension of power, aspects such as norms, values, practises, and symbols are identified. As mentioned, scholars interested in understanding the diagrammatic conception of power in GPNs concentrate on this dimension. The dimension involves a vast discussion of issues. This thesis, however, limits the scope of the research into issues related to labour regime and workers’ associational power as well as discourses used by firms to serve their interests. It is important to bear in mind that discussions on this dimension cannot be divorced from the aspects in the material dimension, as socio-spatial contexts are interconnected to norms, values, practises, and symbols. For instance, values and norms shape labour regime, which eventually affects labour agency at both individual and collective levels.

As mentioned above, the relational view of power that the GPN approach takes puts emphasis on the bargaining power of GPN actors. In this regard, after identifying the sources of the bargaining power of these actors, further steps require investigations on how these actors mobilise the resources to achieve outcomes that serve their interests. The relational view of power inevitably underlines conflicts of interest as the centre of analysis. In the meantime, strategies are employed by GPN actors in order to mobilise their influence. In this context, the notion of geographical scale is of salience, since it depicts the scale in which actors attempt to exercise their bargaining power in GPNs. As mentioned, the GPN approach emphasises the interconnectedness of these scales. Meanwhile, another important aspect of the analysis is the outcome of this process. Since power is perceived by GPN literature as something contingent, not only the exercise of power, but the outcome of this process also depends on the context of GPNs and the power constellation between GPN actors. The main question in analysing the outcome is whose interest it serves. Additionally, the temporal aspect of this outcome should be underlined. All in all, the overall analysis of the outcome should aim at explaining the sectoral responses to competitive pressures and the implications on labour. In this case, the purpose of this research is to analyse how power relations change under trade liberalisation.
Summary:
This chapter provides theoretical discussions on labour and power in the GPN approach. In so doing, this chapter starts with the genealogy of chain frameworks and explains the distinct tenets of the GPN approach. The genealogy of chain frameworks generally distinguishes the prolific chain research along three approaches, namely, the world-system theory, the GCC approach, and the GVC approach. While the latter two approaches focus on meso- and micro-levels of analysis of global production system, the world-system theory takes a more macro and holistic approach. Along these approaches, the GPN approach is perceived to lean towards the GCC and GVC approaches. Nonetheless, the network ontology and the relational sense of the GPN approach are different from the GCC and GVC analyses. This is partly shown by the consideration of the roles of the non-firm actors in the GPNs.

Unlike the GCC and the GVC approaches, the GPN approach relies on the relational view of power. This is demonstrated by the networked and diagrammatic conceptions of power taken by GPN literature. It implies the focus on how GPN actors seek to exercise their strategic advantages as well as on practises and discourses in GPNs. As such, GPN scholars are interested in analysing both the material and discursive dimensions of GPNs.

Labour issues are inevitably at the heart of the GPN analysis, as the focus of the framework is on social processes. Here, the three concepts central to the GPN literature (i.e., power, value, and embeddedness) allow for such analysis. Additionally, the relational view of power enables GPN scholars to analyse how workers may exercise and mobilise their power in GPNs vis-à-vis other GPN actors. In these attempts, the GPN approach benefits from other bodies of literature on labour. In particular, labour geography literature as well as literature on sources of workers’ power and labour internationalism may provide mutual conversations within the GPN approach to issues such as workers’ (individual and/or collective) power, and labour agency.

The conceptualisation of power offered by the GPN approach is then disentangled with theoretical discussions on the dimensions of power. Aiming at analysing sources of bargaining power available for GPN actors, the dimensions of power could be conceived into material and discursive dimensions of power. Material dimension of power includes market power, corporate power, institutional power, workers’ power and collective power. Discursive dimension of power consists of discourses, values, norms and symbol. Bringing all these discussions together, this chapter offers power dimension and conceptualisation in a global production network, which will be utilised in the analyses of findings of this book.
<table>
<thead>
<tr>
<th>GPN Actors</th>
<th>Power dimension</th>
<th>Descriptions</th>
<th>Remarks</th>
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</thead>
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<tr>
<td>Firms</td>
<td>I. Material Dimension</td>
<td>Sources of bargaining power</td>
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<tr>
<td></td>
<td>Corporate power</td>
<td>Financial power: (1) access to significant financial sources: public (government investment), financial market, banks, other financial institutions; (2) access to foreign and/or domestic investment</td>
<td>Access to large investment: increased production capacity, advanced marketing activities, R&amp;D, diversity of operating activities</td>
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<td></td>
<td></td>
<td>Technological power: possession of specific know-how or technological capability</td>
<td>Determine low or high value-added activities of firms</td>
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<td></td>
<td></td>
<td>Access to resources other than finance and technology: e.g. abundant natural resources/raw material, abundant labour resources; access to information</td>
<td>Allow firms to offer competitive price</td>
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<td></td>
<td>Political power, namely, access to decision-making process (influence to the government): campaign funding, lobbying</td>
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<td>Institutional power: private voluntary governance in two forms: (1) voluntary</td>
<td>Enforcement, compliance, sanctions</td>
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<tr>
<td>GPN Actors</td>
<td>Power dimension</td>
<td>Descriptions</td>
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<td>codes of conducts; (2) multi-stakeholder approach</td>
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<td></td>
<td>Collective power: business association</td>
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<td></td>
<td>Market power: key position in GPNs; holds key market access for other firms; dictate upgrading</td>
<td>Structural power</td>
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<tr>
<td>State</td>
<td>Institutional power</td>
<td>Provider of regulatory environment: Sets the regulation. Shapes the regime of accumulation: capital-labour relation (e.g., labour law, welfare regime)</td>
<td>Shape labour regime, labour agency</td>
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<td></td>
<td>Container of decision-making process (political regime). Plays the role of mediating the interests of other GPN actors (firms, labour, civil society or pressure groups)</td>
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<td></td>
<td>Permits or forbids access to local resources</td>
<td>Structural power</td>
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<td></td>
<td>Constitutes institutional setting serving a neoliberal agenda, e.g., market or trade liberalisation</td>
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<tr>
<td>Labour</td>
<td>Workers’ power</td>
<td>Agency at individual level: practised in workers’ daily lives</td>
<td>Dialectical relations with labour regime</td>
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<tr>
<td></td>
<td>Associational/collective power: agency at collective level, e.g.,</td>
<td>Dialectical relations with labour regime</td>
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<td>GPN Actors</td>
<td>Power dimension</td>
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<td>labour unions or other forms of labour organising</td>
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<td>Private voluntary governance: participation in multi-stakeholder approach</td>
<td>Enforcement, compliance, conflict of interests, sanctions</td>
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<td></td>
<td>Marketplace bargaining power: possession of certain skills; ability to rely on non-wage source of income</td>
<td>Structural power</td>
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<td></td>
<td>Workplace bargaining power: position within key industrial sector; position of the sector in the GPN overall</td>
<td>Structural power; can be used to advance workers’ associational/collective power</td>
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<td>NGOs, pressure groups, etc.</td>
<td>Collective power</td>
<td>Agency at collective level: NGOs, pressure groups, think thank groups</td>
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<td></td>
<td>Institutional power</td>
<td>Private voluntary governance: participation in multi-stakeholder approach</td>
<td>Enforcement, compliance, conflict of interests, sanctions</td>
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<td>Firms</td>
<td>II. Discursive Dimension</td>
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<td></td>
<td>How power is incorporated</td>
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<td>Discourses</td>
<td></td>
<td>Utilising and shaping certain discourse to put forward the firm’s agenda</td>
<td>Working conditions; affecting workplace/factory regime, which in turn affects labour agency</td>
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<tr>
<td>Values, norms</td>
<td></td>
<td>Set up and shape the organisation of production with certain values and norms</td>
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<tr>
<td>GPN Actors</td>
<td>Power dimension</td>
<td>Descriptions</td>
<td>Remarks</td>
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<tr>
<td>State</td>
<td>Values, norms</td>
<td>Shape workers’ identity through institutional setting that influences the history of and the current local labour market</td>
<td>Affecting local labour regime, which in turn affects labour agency</td>
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<tr>
<td>Labour</td>
<td>Symbol</td>
<td>Utilising symbols to advance associational power</td>
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Chapter 4: Methods

The global production network (GPN) approach offers a network ontology and epistemology. According to Dicken et al. (2001), network methodology implies identifying actors in networks, their ongoing relations, and the structural outcomes of these relations. According to them, networks serve as the unit of analysis, rather than individuals, firms, or nation states. The relational view of networks urges an investigation of the socio-spatial constitution of network actors (e.g., individuals, firms, institutions) and puts emphasis on interconnectedness, hybridities, and possibilities. The authors (2001: 92) propose three key aspects in employing network methodology:

1) networks are seen as relational processes and structures in which and through which power is exercised;
2) attention is given to the multiplicity of geographical and organisational scales at which networks are manifested;
3) the methodology also considers the complex territorial embeddedness of networks.

In sum, they argue that global economy should be understood as a variety of ‘spaces of network relations’ involving social actors. Consideration of a variety of spaces, allows scholars to adopt diverse lenses, be they geographical, sectoral, or organisational.

As mentioned in Chapter 3, the network ontology conceives power as a capacity to exercise, which can be brought to fruition only through the process of exercising. Thus, the imperative of network methodology is to highlight the exercise of power by network actors. The causal link can still be drawn when the emergent effect of network relationship is greater than that of individual actors (Dicken et al. 2001: 93–4). Here, network methodology can be employed by focusing on the structure as well as on the relation. This is attributed to the view that network relationship encompasses both structural and relational processes (ibid.: 94). The former implies the focus on interactions of various networks constituting structural power relations, whereas the latter suggests the emphasis on interactions between social actors. Moreover, network methodology also contends the interconnectedness of different geographical scales in network formation and its processes (ibid.: 95). Additionally, time–space specificity of networks must be addressed (ibid.: 96). As mentioned, the GPN approach proposes network and territorial embeddedness. Territorial embeddedness allows GPN scholars to consider the time–space specificity of GPNs. For example, apart from playing a role as an important network actor, the state also serves as a territorial entity.
Early literature within the GPN framework (Henderson et al. 2002: 447) proposes a methodology that focuses on five aspects, namely:

1) networks of firms involved in the conception, production, and consumption of goods and services;
2) distribution of power within such networks;
3) the importance of labour and the processes in value creation and transfer;
4) institutions that influence firm strategy (e.g., state, employer associations, trade unions, NGOs) in GPNs; and
5) the implications of all of these for technological upgrading, value adding and capturing, and economic prosperity for firms and societies involved in GPNs.

Stemming from these aspects, the authors identify firms, sectors, networks, and institutions as four conceptual dimensions for GPN analysis. With regard to firms, the attention is given to their strategic priorities, attitudes to labour relations, and the nature of their relations with suppliers. These aspects should be connected to some issues, such as firms’ locations or their nature of ownership. Regarding sectors, the authors argue that a sector covers a range of companies (from conception to consumption of products) as well as other actors, such as industrial pressure groups (e.g., employer and labour associations), or vocational training institutions. The specific production and consumption arrangements applied in the sector bring about the need of certain regulatory environments set by the government at different scales (e.g., local, regional, national, international). Regarding networks, analysis directs the attention onto the governance issue. Here, the networked conception of power highlights how power is exercised and mobilised in the GPNs. Finally, on institutional arrangements, GPN scholars argue that they shape GPNs both locally and globally, including labour and labour relations in GPNs.

Henderson et al. (2002: 455–7) draw an example of stylised mapping of GPNs. As explained, the GPN approach rejects the assumption of vertical and linear processes of production and consumption organisation. Instead, it puts emphasis on the ‘network’ metaphor. In Figure 4.1, values are created and captured differently across regions. Region A reflects a high value creation and capture without involving much material flow. This serves as an example for lead firms, which maintain research and development activities, design, and marketing in their home countries, while offshoring other lower value-added activities to other countries. Region C shows high value creation but with low value capture. This is an example of a region consisting of first- and second-tier suppliers, where some of the values captured are transferred to lead firms located in other
Regions or countries. Regions B and D demonstrate low value creation, with the latter having lower value capture. The latter shows an example of a ‘branch plant’ with rather low value added in terms of production and technology and skills enhancement. In Region B, despite the low value creation, value capture is relatively higher than that in Region D due to the role of non-firm institutions. Moreover, the non-material flows reflect the power exercised by GPN actors. In Region B, global institutions shape the value generation and capture, whereas national government agency (e.g., Ministry of Finance) influences the profit transfers of foreign subsidiaries. In Region A, corporate power is shown by the region’s lead firm affecting the local administration, whereas collective power is mobilised by trade union. The territorial embeddedness is highlighted by the density and intensity of the connections between different agents in GPNs. To exemplify, in Region D, territorial embeddedness is relatively limited, as firms and organisations in this region have few and weak relations. However, network embeddedness shows a relatively high intensity, as linkages with other agents outside of the regions are relatively strong. This mapping is certainly useful as a starting point for GPN analysis. The authors, however, argue that mapping is unable to show the evolution of GPN over time as well as the structural preconditions that shape GPNs (e.g., different national capitalism and national mode of regulations). Here, I suggest a descriptive analysis on these structural preconditions in order to complement mapping of stylised GPNs.

While the above stylised GPN mapping provides a useful example that specifically targets the relations and linkages between GPN actors, it is not scale sensitive. Coe et al. (2008) illustrate how such analysis can be scale transcending (see Figure 4.2.). It provides a heuristic framework for analysing the global economy from the perspective of the GPN approach. The framework offers a useful figure on the relational nature of GPNs across different scales (e.g. local, national, regional, and global).

In order to investigate the relational and structural nature of GPNs, scholars have mainly relied on qualitative methods. This study follows qualitative methods, as this research focuses on the responses of sectors to trade liberalisation and employs the GPN approach to analyse such responses. This research takes two sectors as a comparative study. I use comparative methods to find similarities as well as differences. As mentioned, I choose the oil palm and automobile sectors in Indonesia in the face of trade liberalisation as an empirical case.
The qualitative methods used include in-depth interviews, observations, focus group discussion, and literature analysis. In-depth interviews and focus group discussions were carried out with several actors, including company representatives or management, workers, unions, government officials, associations, cooperatives, non-governmental organisations (NGOs), suppliers, and buyers. Interviews were transcribed, translated, and analysed. Literature analyses were conducted by gathering and analysing articles, texts, documents, reports, etc. During the process, relevant statistics were also collected, such as statistics on exports, imports, tariffs, Gross Domestic Product (GDP), wages, employment, and working hours.
Since this research focuses on competitive pressures resulting from trade liberalisation, it gives a hint on the time period subject to observation. Although Indonesia’s accession to the WTO in 1995 marked an important step toward trade liberalisation, which to some extent had implications on oil palm and automobile sectors, further liberalisation took place in the two sectors differently. As mentioned, AFTA allowed further engagement particularly in oil palm sector post 2002, or CPO trade at the regional level. Meanwhile, liberalisation measures in the automobile sector were started by the government in 1999 following the IMF package. This study has taken the time frame between 1995 and 2010.
Field research was conducted from April–June 2013 and November–December 2014 in Riau, Karawang, Cibitung, and Jakarta. The field research for the oil palm plantation sector was taken in Riau as the province hosts the largest oil palm plantation areas in Indonesia. In 2010, oil palm plantations covered 2 million hectares in the province, producing almost 30% CPO output of the country (Directorate General of Estates 2011: 9). The field research study was conducted on three company-operated plantations (henceforth, estates X, Y, Z) as well as on smallholder-owned (both plasma and independent) plantations in Riau in April 2012. A parastatal company (henceforth, company X) manages Estate X. The company operates 77,064 hectare of oil palm plantation in Riau and employs around 19,000 workers. Estate X covers 2,813 hectare and has 484 workers. Private plantation companies operate estates Y and Z (henceforth, companies Y and Z). These companies are subsidiaries of two foreign-owned company groups considered as ‘big’ players in the oil palm sector (both upstream and downstream) in Indonesia and Malaysia. Both these groups operate a substantial number of oil palm plantations in Indonesia. Company Y operates across 208,000 hectare, out of which Estate Y manages 2,928 hectare and employs 495 workers. Company Z has 182,840 hectare, of which Estate Z handles 1,288 hectare, employing 248 workers. Those interviewed comprised 21 workers, 6 plasma and independent smallholders, 12 estate representatives, 2 representatives from trade unions, 16 representatives of local and national government agencies, 3 representatives of farmers organisations, 1 representative of a business association, and 3 representatives of NGOs. Access to workers on company-owned estates, in many cases, was only allowed under the supervision of field supervisors. They guided me to the plots where plantation activities were conducted. That was how the respondents were selected. It was only on Estate X that I could manage to find time to interview workers without the supervision of field supervisors. However, I did not find much difference in terms of the results of the interviews. I suspect different results would have come out only if I stayed longer with the workers. Meanwhile, access to workers on smallholder-owned estates was much easier. I went through the plots of smallholder-owned estates and interviewed workers whom I found. It was only in one case that the smallholder owner was also present during the interview. This is because the smallholder owner was usually working together with the workers. Among the workers whom I interviewed, 12 were women, aged between mid-20s and mid-50s. The majority of these women worked as maintenance workers. Most women were casual workers, while four of them served as unpaid workers and only one had permanent employment status. The male workers were aged between mid-20s and mid-30s. Among them, only one worker was not a harvester and two were casual workers. Apart from plantations, I also interviewed the representatives of companies. In

15 The term plasma smallholder will specifically be discussed in Chapter 5.
November–December 2013, I interviewed two representatives of trade unions, one representative of an NGO, one of a certification body, one of the RSPO, and one of a peasant pressure group.

As for the automobile sector, I selected Company A, an automobile OEM in Indonesia, and traced its value chain linkages. Company A produces a certain automobile brand that has 30% market share, hence, controls the largest market share in Indonesia. It is a Japanese-affiliated company, with around 90% of its ownership controlled by a well-known Japanese car company. As mentioned, Japanese brands take the majority of the market share of the Indonesian automobile market and are large players in the industry. Furthermore, as will be discussed in the next chapter, the Japanese automobile value chain is characterised with long and tight relationships, the so-called *keiretsu*. In view of this, I decided to trace the value chain of Company A for my case study and thus selected three companies that supply to Company A. The selection was conducted mainly based on the possibility of getting access to the companies. I conducted field research in the factories of Company A and the second-tier supplier (henceforth, Company B) in May and June 2013. Access to Company A’s factories was very limited and I was only granted a factory sit-in in one of its assembling factories located in Karawang. In order to fill this gap, I interviewed the company’s trade union representative. I also interviewed the Plant Administrative Division head in investigating the production process at the factory. To understand the overall value chain configuration of Company A, I was only granted an interview (held in December 2013) with a representative of the company’s purchasing division. Company B serves as a second-tier supplier for Company A, and also supplies components and parts directly to a motorcycle producing OEM. The company is a Japanese joint venture and operates two factories in Karawang and Cibitung, employing 1,350 workers. In November–December 2013, I conducted field research in two supplier companies (henceforth, company C and D). Company C acts as a first-tier supplier to Company A. It is a Japanese joint venture and employs 578 workers. Access to the company’s factory was given with the supervision of the company’s human resources manager. In order to tackle this limit, I also interviewed the union federation to which the plant-level trade union is affiliated. Company D is also a Japanese joint venture that serves as a first-tier supplier to Company A. It operates a factory in Cikarang and as of 2013 employs 509 workers. Access to the factory was given with the supervision of one of the shop floor supervisors. Additionally, I also interviewed the company’s General Manager as well as the Human Resource Department personnel. Unfortunately, I did not have any access to the company’s plant level union in order to collect data from the workers’ perspectives. Apart from the firms and trade unions, I also interviewed nine representatives of government agencies, one representative of a business association, and three representatives of a union-focused NGO.
4.1. Identifying GPN Actors

As mentioned above, an initial step in GPN analysis is to identify GPN actors. This section briefly describes the GPN configuration of the selected case study, namely, the Indonesian oil palm and automobile sectors. This attempt helps identify actors and interaction between them, which will be considered for the next step of the analysis.

4.1.1. Indonesian Oil Palm GPNs

Figure 4.3. displays the processing and refining chain of oil palm. Oil palm is produced by smallholder farmers or on large oil palm plantations. Processing factories are usually located nearby the plantations, since fresh fruit bunches (FFB) need to be milled within 24 hours of being harvested (Mather 2008: 62; Van Gelder 2004: 4). The factories process oil palm produced by large plantations and by smallholders together. At least 4,000 hectares of oil palm production is required to support a palm oil mill (Wakker 2005, as cited in Mather 2008: 62). In an oil palm mill, the flesh of oil palm fruit is sterilised and mechanically separated from the kernel (Van Gelder 2004: 4). The kernel is subsequently sent to a crushing plant, which can be located in either the producer or consumer country, to produce palm kernel oil (PKO) and palm kernel meal (PKM). Meanwhile, the fruit is mechanically pressed to extract the Crude Palm Oil (CPO), a yellow-red liquid (ibid.). The CPO is then clarified and purified (ibid.). Through the refining process, fatty acids, colour, and other impurities are extracted from CPO and transformed into Refined Bleached Deodorised Palm Oil (RBDPO), which is then ready to be used in food products (Mather 2008: 62). RBDPO is used in industry as frying oil to produce chips, crisps, instant noodles, and other snack foods (Van Gelder 2004: 5). The refined palm oil is fractionated in the final stage to produce liquid palm olein (RBD palm olein) and solid palm stearin (RBD palm stearin; ibid.). The liquid product is sold as cooking oil, while the solid product is used in the manufacture of margarine (Teoh 2002, as cited in Mather 2008: 62; Friends of the Earth 2004: 6). RBD palm stearin is also used in the soap and oleo chemical industries. Due to its different composition from CPO, PKO is suitable as shortening in pastry and as a substitute for cocoa butter (Van Gelder 2004: 5). PKO is also used in several non-food products, such as soaps, detergent, and lubricants, whereas PKM is predominantly used in rich protein animal feeds (Mather 2008: 62).

16 Large plantation companies usually operate their own CPO mills, whereas small plantations sell their FFB to CPO mills of neighbouring plantations (Van Gelder 2004: 31).

17 The kernel crushing process yields 45% PKO and 55% PKM (Van Gelder 2004: 4).
Figure 4.4 illustrates some players in Indonesian oil palm production networks from upstream to downstream. As demonstrated, the oil palm GPNs involve smallholders, oil palm plantation companies, palm oil mills, traders, processors, and companies from various industries (e.g., food, oleo-chemical, cosmetics). The illustration, however, does not show other important actors, such as government agencies (both local and national), workers, trade unions, pressure groups (e.g., environmental NGOs), and other non-firm actors, such as the RSPO (Roundtable on Sustainable Palm Oil) or ISPO (Indonesia Sustainable Palm Oil). The interactions between these GPN actors are discussed in the subsequent chapter.

**Figure 4.3.: Palm Oil Commodity Chain (Palm Oil Processing and Refining)**

Figure 4.4.: Indonesian Oil Palm Value Chain (Players)

Notes:
1. PTPN: PT Perkebunan Nusantara (state-owned plantations)
2. PKS: Pabrik Kelapa Sawit (oil palm mill)
3. PBS: Perusahaan Besar Swasta (large private company)
4. Crude palm oil: Palm oil derivatives

Source: Hermawan et al. (2006), as cited in Sa’id (2010: 46)
4.1.2. Indonesian Automobile GPNs

Figure 4.5 demonstrates a simple automobile value chain. The value chain was traditionally organised in tiers (Veloso and Kumar 2002: 12). Original Equipment Manufacturers (OEMs) carried out the functions of designing and assembling the cars. The first tiers manufactured and supplied products directly to the automaker. As OEMs are also responsible for assembly activities, they are sometimes also called first-tier suppliers. Second tiers produced simpler individual parts that would be included in a component manufactured by the first-tier suppliers. Additionally, the third and fourth tiers supplied raw materials. OEMs order components based on their own designs and engineering specifications and suppliers are required to meet these specifications at an agreed price (Dicken 2003: 16).

![Figure 4.5.: Basic Automobile Value Chain](source: Dicken 2003: 4.)

Veloso et al. (2000, as cited in Veloso and Kumar 2002: 12) argue that there are new configurations in automotive value chains that allow players to take more diversified roles. These new roles of suppliers are resulting from consolidation between suppliers, which leads to the emergence of global mega suppliers, or so-called Tier 0.5 suppliers (Humphrey and Memedovic 2003: 22; Nag et al. 2007: 12). This suppliers’ consolidation is driven by changes in automobile companies’ strategy as well as pressures from OEMs, including OEMs’ desires.

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18 These auto manufacturers’ strategies mostly occur in Western companies as they struggle to compete with Japanese companies (Humphrey and Memedovic 2003: 20). In the Japanese *keiretsu* system, first-tier suppliers are limited to a few large component companies with extensive Research & Development capabilities (Abrenica 1998: 20). In
to reduce the number of suppliers with which they have direct relationships (Veloso and Kumar 2002: 14; Nag et al. 2007: 12; Dicken 2003: 19, 25). Mega suppliers (e.g. Bosch, Denso, GKN, TRW) manage second-tier suppliers and develop supply system in several different locations (Nag et al. 2007: 12; Dicken 2003: 28). Thus, major OEMs currently focus more on basic design and assembly operations as well as servicing after-sales market (Nag et al. 2007: 10).

Although automobile assembling in Indonesia already existed in 1928, it was not developed further (Tarmidi 2003: 95). Till 1969, activities in automobile sector were mainly trading with limited assembling operations (Shauki 1996: 3, as cited in Tarmidi: ibid.). During its initial development in the 1960s, the automobile sector was mainly an assembly industry (Puraka et al. 2008: 14). When the sector was protected as a result of import substitution policy, Japanese car companies penetrated the Indonesian market through direct investment, particularly by establishing joint ventures with local entrepreneurs (ibid.: Tang 1990: 70). Japanese companies have dominated investments in Indonesian automobile sector since the 1980s (Cipta 2011: 2). This not only happens in Indonesia, but also in other Southeast Asian countries. In fact, Japanese car companies have dominated the ASEAN automobile market since the mid-1970s (Tang 1988: 28). Nonetheless, another study argues that joint ventures with local companies serves only a small number, whereas it was mainly foreign (particularly Japanese) ownership involved in the automobile sector (Aswicahyono 2000: 216). After the sector was liberalised, more players entered the sector, including America’s General Motors, which assembles Opel and Chevrolet, South Korea with Hyundai and KIA, France with Peugeot, and Germany with BMW and Mercedes (Puraka et al. 2008: 14). As of 2008, there were 20 car assemblers, which produced 35 brands of motored vehicle with a total production capacity of 700,000 units per year. As mentioned, the domestic market is dominated by commercial and MPV cars. As for passenger cars, assemblers mainly operate in ‘makes’ and ‘models’ and compete intensively with frequent change of models (Nag et al. 2007: 41).

As shown in Figure 4.6, the automobile sector in Indonesia currently engages in supplying (including component and spare parts), assembling, and distributing foreign automobile brands, mainly Japanese. This thus includes principals (foreign automakers), sole agents, assemblers, component part manufacturers (e.g., first, second, and third-tier suppliers), and distributors. The figure does not show important non-firm actors, such as government agencies (local and national), business association (Gaikindo), and trade unions.

In this case, Western auto companies attempted to emulate their production and supplier strategies in order to follow the pattern of their Japanese counterparts. As a result, these companies reduced the level of their in-house production and started to transfer design functions to their leading suppliers.
Summary:

This chapter describes the methods taken to answer the research questions posed in this book. Informed by the GPN approach, the research methods in this book puts emphasis on the role of GPN actors and the relational approach. In order to tackle this, the research starts with identifying GPN actors in both the automobile and oil palm plantation sectors. This research also employs qualitative methods through interviews, focus group discussions, observations, and literature analyses.
Figure 4.6.: Indonesian Automobile Value Chain

Chapter 5

How the State and Firms in Indonesian Oil Palm Plantation Sector Mobilise Power

This chapter analyses power relations in Indonesian oil palm GPNs. As discussed in Chapter 3, the GPN approach rests on the relational view of power. This conception of power assembles the networked ideas of power, which puts emphasis on how actors mobilise their bargaining power. Chapter 3 also explains how this view of power is conceptualised in this book. Apart from the material dimension, some issues in the discursive dimension are analysed in the book. In analysing power in the Indonesian oil palm and automobile GPNs, this book seeks to understand how power relations change under trade liberalisation, with a particular focus on labour relations (the latter is discussed in Chapter 7).

Power relations in oil palm GPNs can be preliminarily understood by looking at the corporate power exercised by firm actors. We can start by investigating inter-firm relationships where discussions focus on several aspects of corporate as well as institutional power played by the state (as mentioned in Chapter 3).

The Indonesian oil palm sector serves both export and domestic markets. Initially, the sector was developed to cater to a domestic market that was in need of cooking oil. This was part of a government programme which stressed on the general development of the plantation sector so that the country’s dependence on oil revenue decreased (Badrun 2010: 35). As palm oil with time has become more competitive in comparison to other vegetable oils, it has caught the eye of foreign markets. As mentioned in Chapter 2, the tropical climate in Indonesia is suitable for oil palm plantations. The same goes for Malaysia and the Philippines. Furthermore, oil palm is a typical estate crop, hence, a vast area is required to achieve economies of scale. The global expansion of the plantations has seen the return of the palm tree to the land of its origin, i.e., the African continent. Liberia, for example, has recently been targeted as the new destination for plantation area. Nevertheless, finding areas with proper climate, vast lands, and low labour costs is not an easy task. This contributes to the concentration of oil palm plantations in particular regions or continents. Natasha Hamilton-Hart (2014) argues that palm oil is a regional industry without particular regional cooperation. This applies not only to the production of crude palm oil (CPO), but also to the refining activities and markets, the locations of which concentrated around the Asian region. As mentioned in Chapter 2, in 2010, India, Malaysia, and Singapore have been among Indonesia’s three largest foreign markets for CPO.
Based on the framework of global commodity chain (GCC) analysis, the global palm oil sector is a producer-driven commodity chain, in which Indonesia and Malaysia have become the main suppliers exercising some controls over the global market (Wakker 2005, as cited in Mather 2008: 64). In the perspective of the global value chain (GVC) approach, as well as based on the type of value chain governance identified by Humphrey and Schmitz (2000), the value chain governance of the global palm oil sector is considered hierarchical, as all palm oil companies have become vertically integrated and are both investing upstream and downstream in the palm oil commodity chain (Mather 2008: 64)\textsuperscript{19}. This line of argument concerning the type of value chain governance in the oil palm sector is, however, partly evident, at least for the case of Indonesia. While a producer-driven or hierarchal relationship is the characteristic in oil palm chains of parastatal and private (particularly large) plantation companies, smallholders (both independent and \textit{plasma}\textsuperscript{20}) involved in oil palm chains are considered to have a captive (in the perspective of GVC analysis) or quasi-hierarchal relationship (in the perspective of Humphrey and Schmitz 2000). To this end, it is worth mentioning the socio-spatial contexts shaping these inter-firm arrangements.

\section*{5.1. Institutional Arrangements and the Role of the State}

During the period of Dutch colonialism, the oil palm sector in Indonesia went through three transition periods (Badrun 2010: 12).

- The first period showcased the role of the Dutch trading company, \textit{Vereenigde Ost-Indische Compagnie} (VOC);
- in the second period, the Dutch colonial government imposed the Cultivation System (\textit{Cultuurstelsel}) on the plantations;
- in the third period, the Agrarian Law of 1870 was issued laying down the foundation for the establishment of large-scale plantations. This was not only done by supporting the state-owned plantations, but also by attracting the private sector to become involved in the plantation sector.

Aiming at improving socio-economic conditions, the development of plantations was started in the 1960s through several government programmes introduced to assist small farm rice and \textit{palawidja} cultivation, particularly in Java (Zen et al. 2005: 3). The expansion of the oil palm sector between the late 1960s and the late 1980s was mainly contributed by direct government investment into

\textsuperscript{19} Mather (2008: 64) claims that there are three types of investment. First, companies invest in primary production with the hope to secure new sources of palm oil. Second, palm oil manufacturers invest in refining process in their key markets, particularly the EU, China, and India. North American and European based refiners and other biofuel producers have invested in primary production, especially in Indonesia and other tropical areas. 

\textsuperscript{20} Explanation on \textit{plasma} smallholders is in the next section on the role of the state.
parastatal companies, namely, *Perseroan Terbatas Perkebunan Negara* (PTPN; Ibid.; Van Gelder 2004: 18). As a result, in 1979, the area of oil plantations grew to 260,939 ha, and was mostly located in Sumatra, particularly in North Sumatra[^21] (Van Gelder: 18; Badrun 2010: 39). Up until this period, oil palm plantations were mainly in the form of large-scale plantations. However subsequently, several policies were passed by the government in order to provide room for smallholders’ participation in the oil palm plantation sector. In 2008, around 40% (or around 2.9 million ha) of the plantation areas belonged to smallholders (Badrun 2010: 67).

The government passed the Basic Forestry Law in 1967, which provided state control over island forests. The law essentially allowed the state to access 70% of the land area in Indonesia’s land as ‘state forest land’, managed by the Ministry of Forestry (Brad et al. 2015: 103). The law also authorised the Ministry of Forestry to grant a Right of Forest Exploitation (*Hak Pengusahaan Hutan*: HPH) to the parastatal plantations and private timber companies (Collins 2001: 113). Subsequently, these provisions served as an important modality for oil palm plantations development policies. The law is also perceived as one of the main cause of land conflicts on oil palm plantations. This is because customary land tenure was classified as state forestland. At the end of the 1980s, the Ministry of Forestry granted vast amount of concessions for the development of industrial timber, oil palm plantations, and industrial shrimp farming in South Sumatra (Ibid.: 114).

In 1979 the government initiated the Nucleus Estate and Smallholder Development Project, or the so-called ‘NES’ (later famous with the name PIR, or *Perkebunan Inti Rakyat*) with financial assistance from the World Bank (Casson 1999: 13; Badrun 2010: 48-49). The first pilot project of the scheme was implemented in 1976 in Alue Mera, Aceh, and in Tabalong, South Sumatra (Susila 2004a). Under this scheme, the state offered access to forest and village lands, infrastructure development, and credit at concessionary rates for plantation development (McCarthy 2010: 828). The participating farmers were the local people (Badrun 2010: 64).

The scheme mainly required a ratio of 20:80 between nucleus estate and smallholder areas. Based on this arrangement, nucleus estate areas (called ‘inti’) would obtain 20% of block development, while participating smallholders (called ‘plasma’) would obtain 80% of the plot called ‘satellite’, typically around 2 ha, as well as 0.75 ha for home garden intended for food crops, and 0.25 ha for housing (Rist et al. 2010: 1011; McCarthy 2010: 828-9; McCarthy and Cramb 2009: 116). The state provided financing for smallholder plantation, initial living expenses and housing, while the nucleus estate was responsible for

[^21]: The government only began to enlarge state-owned plantations into Kalimantan and Papua areas in the late 1980s (Van Gelder 2004: 18).
extended services (including knowledge transfer), for collecting and processing
fresh fruit bunches (Larson 1996: 5, as cited in McCarthy 2010: 828; Badrun
2010: 53). The smallholders would get the fully privatised rights of their
smallholdings upon completion of their development loan (McCarthy 2010:
829). If smallholders could not provide a sufficient portion of land, they had to
repay smallholding establishment costs to inti developers (ibid.). As these plots
matured, the operations were then transferred to the smallholders, who
cultivated the plantations under the supervision of inti developers (Casson 1999:
13). The plasma farmers could also entrust the plot to inti developers for
cultivation (Rist et al. 2010: 1011). Inti developers were then required to
purchase fresh fruit bunches (FFBs) from the smallholders with the price
regulated by the government.22 While waiting their plots to mature, plasma
farmers were employed in the oil palm plantation (either ‘nucleus’ or ‘satellite’) as wage labourers (Zen et al. 2005: 7).

In the satellite area, the PIR project team organised satellite development, for
example, by forming farmer groups, while the district government developed
farmer cooperatives (called Koperasi Unit Desa or KUD) for coordinating the
marketing of FFBs and repayment of credit. In the repayment of plasma
development loans, 30% net crop proceeds were deducted to cover 12%
subsidised interest and charges for inputs and services (Zen et al. 2005: 7). As
such, the estates benefited through their fees for services as well as their returns
from milling smallholder fruits into CPO (ibid.). Between 1986 and 1995, the
government involved transmigrants23 in a scheme called PIR-Trans. Under this
scheme, the government supplied a migrant workforce into the oil palm
plantations. The scheme was similar to the previous PIR-NES scheme, whereby
the plantation company formed a nucleus estate, while a state and/or partner
bank provided the capital for land clearance, planting, and the supply of
fertilisers and other inputs for satellite areas (McCarthy and Cramb 2009: 116).
This scheme, along with PIR-NES, aimed to bring small and large plantations
together in the oil palm plantation sector (Surambo 2010).

Aiming at reducing Indonesia’s dependence on oil revenue, as well as at
surpassing Malaysia as the world’s largest palm oil producer, the government
offered large forest areas to large Indonesian business groups and foreign
investors in the mid-1980s (Van Gelder 2004: 19; Badrun 2010: 35). Between
1986 and 1996, the government encouraged greater participation of the private

22 The regulation stipulates the formulation for setting up the price. Apart from palm oil
prices, an important element of such formulation is an index issued by provincial
government every month based on suggestions by a special team for the issue. The team
includes representatives of the local government, palm oil companies (mills), and plasma
smallholders.

23 The term transmigrants refer to migrants who move from other islands, mainly from Java
Island.
sector in the oil palm plantations by granting access to credit at concessionary rates for estate development, new crop planting, and crushing facilities (Casson 1999: 13). This implies that companies could obtain loans from the ‘executing bank’ at 11% interest rate during land preparation and at 14% after the trees yielded, whereas the ‘executing bank’ was allowed to borrow from the central bank (Bank Indonesia) at a concessionary rate of 4% (ibid.). The purpose of the subsidies was to facilitate the companies to mitigate risks and uncertainties resulting from the establishment of estates that involved smallholders (ibid.). This also marked the beginning of the involvement of the private sector in the nucleus estates schemes. During this period, the government also passed laws ‘to ensure better coordination between government agencies as well to speed up the process of permitting required to release forest lands for conversion’ (Colchester et al. 2006: 44).

In 1993 the government passed two laws as a part of National Deregulation Policy Package. The general purpose of the policy was to give more space to local governors to promote regional development, whereas at the same time ensuring that private companies had a long-term commitment to the areas they were investing (Colchester et al. 2006: 44). The laws allowed governors to issue permits for forest conversion into oil palm plantation up to 200 ha, and that more than 200 ha remained the responsibility of the Directorate General of Estate Crops in Jakarta (ibid.).

In 1995, before the Asian Crisis, the government attempted to expand the development of oil palm plantations in the eastern part of Indonesia through the KKPA (Primary Cooperative Credits for Members) scheme, which was a government-supported private sector and cooperative investment (Casson 1999; Rasiah and Shahrin 2006: 22). Under this scheme, the private sector needed to join a partnership with a cooperative formed by a group of smallholders to attain economies of scale and efficiencies (Larson 1996, as cited in Rasiah and Shahrin 2006: 22). The scheme required local landowners to give up a third of their land to the nucleus estate, whereas the remainder plot was developed and returned to them in the form of oil palm smallholding in the satellite area (McCarthy and Cramb 2009: 116). It is argued that ‘the scheme sought to gain access to land under the de facto control of local landowners through a quid pro quo arrangements with villagers’ (ibid.).

The years before Suharto left office were marked by a strong push to privatise parastatal companies, encourage private sector initiatives, and facilitate foreign direct investment (Colchester et al. 2006: 45). As such, several laws were enacted to support estate crops development and to regulate the competition between companies. One law in particular (Ministry of Agriculture Decree No. 786/10.96) clarified procedures by which companies secured permits for developing estates (e.g., a temporary, one year, start-up permit called *ijin*
prinsip 24, could be extended to a permanent permit called ijin tetap, as well as added with an expansion permit called ijin perluasan) (ibid.). The Ministry of Forestry passed a law (Decree No. 376/Kpts-II/1998), which stipulated ‘that forest land cleared and planted with estate crops were to be classified in Provincial Spatial Plan as Agricultural land but with no rights to plantation permits attached’ (ibid.). Moreover, another measure to boost palm oil exports before the Asian financial crisis was carried out by decreasing export tax (Casson 1999: 8).

Responding to the financial crisis, the government passed a directive to remove barriers for foreign investment in oil palm plantation as well as to speed up the application process, based on the demand of the International Monetary Fund (IMF; Casson 1999: 18). This was an important step, particularly after realising that there was generally a reluctance of foreign investors and banks to invest in Indonesia due to unstable political and economic situation following the financial crisis and the fall of Suharto25 (Van Gelder 2004: 26). On the other hand, in the wake of the Reformasi era following the fall of Suharto’s regime, the forest sector went through a reform process, which led to changes that detrimentally affected investment in the oil palm plantations (ibid.: 25). To exemplify, in early June 1998, the Ministry of Forests and Estate Crops urged all provincial forestry and plantation offices to revoke the forest use and conversion permit of estates that were only interested in cutting timber from their concessions and had failed to develop their estates.

Furthermore, following the financial crisis, the government faced a limited budget (McCarthy and Cramb 2009: 116). This coincided with the political economy situation after the fall of Suharto’s regime, that is, the decentralisation arrangements of regional autonomy (otonomi daerah)26, which in turn gave more space for politicians with alternative ideas about rural development (Colchester et al. 2006: 45; Zen et al. 2005: 6). As a result, there were attempts to encourage development models that would allow local communities to reap the benefit from land and natural resources (ibid.). For example, the government

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24 Ijin prinsip is extendable for another two years.

25 The oil palm sector was unpopular for foreign banks between 1998 and 2002 since the loans extended in the 1990s had not contributed to significant returns (Van Gelder 2004: 26). Following the Asian financial crisis, many Indonesian oil palm companies were unable to pay scheduled interest and principal of their debts, which forced foreign banks to accept write-offs on the outstanding loans. Moreover, critics from environmental activists have started to put pressures on the foreign banks (ibid.). Furthermore, the financial problems facing domestic private plantation companies partly contributed to the slowdown of the plantation expansion and CPO production. This situation was exacerbated by export ban and high export tax policies issued by the government following the financial crisis as a measure to stabilise domestic cooking oil price.

26 Law No. 25/1999 on Regional Autonomy, among others, stipulates the revenue share between central and local government.
passed a new law (Ministry of Agriculture Decree No. 357/Kpts/HK.350/5/2002) that allowed district local regents (*bupati*) to issue permits up to 1000 ha, whereas any area overlapping district boundaries remained the prerogative of the provincial governor (Colchester et al. 2006: 45.). Authority to issue permits of over 1000 ha belonged to the Ministry of Agriculture. While the period during Suharto administration marked patrimonial links between plantation companies with officials of central government, the regional autonomy shifted such links to that between companies and officials of local government agencies.

In 1999, the Ministry of Agriculture introduced a new policy that allowed a different form of ‘*kemitraan*’ (partnership), e.g., SK Menhutbun No.107/Kpts-II/1999; Peraturan Menteri Pertanian No 26/2007. Under the new policy, the central government basically withdrew from the role in providing financial assistance for oil palm development schemes that involved smallholders (McCarthy and Cramb 2009: 117). Nonetheless, the remainder of the model was similar to nucleus estate schemes. Oil palm companies continued to access land and workers for their estates, while landowners provided areas of land to nucleus estates in return for production oil palm plots, markets, technology, and high quality agricultural input in smallholder plasma areas under the plantation supervision (Zen et al. 2008: 2).

However, under the new partnership policies, plantation companies did not need to conform to a certain landholding business model (Zen et al. 2008: 2.). While the previous schemes required a landsharing system (where 80% land was set aside for smallholders and 20% for nucleus estates), the new partnership policy offered greater flexibility on how smallholders might access benefits from their landholdings, with nucleus estates required to develop no less than 20% of their total development areas for plasma smallholders. It is argued that such a change in plot arrangement is intended to reduce estate risk and enhance economies of scale (ibid.). Moreover, plantation companies worked directly with smallholders to resolve land problems, provided extension and training services to plasma cooperatives, and established infrastructure without direct state engagement (McCarthy 2010: 830-1). Another example showing the retreat of the government was its withdrawal from the role in CPO distribution through *Badan Urusan Logistik*/*National Logistic Agency* (Bulog; Van Gelder 2004: 26).

In order to encourage the partnership between plantation companies and local communities, the government particularly increased support towards cooperatives. A law (Ministry of Forests and Estate Crops Decree No. 107/Kpts-II/1999) was passed whereby a three-year plantation permit was to be granted by provincial governors to cooperatives for areas up to 1000 ha or up to 20,000 ha by the central Ministry of Forests and Estate Crops (Colchester et al. 2006: 45). The law was also perceived as a stricter regulation as it limited the plantation area up to 100,000 ha in the whole country for a given company (Van Gelder
In 2004, the central government re-engaged itself by introducing the ‘Plantation Revitalization Programme’, which aimed to develop a further 1.5 million ha of oil palm plantation areas under a credit scheme to be implemented by three banks. This policy once again underpinned state facilitation of partnership between smallholders and nucleus estates under the earlier nucleus estate models (Direktorat Jenderal Perkebunan 2007, as cited in McCarthy and Cramb 2009: 117).

In 2005, the government, in response to the increasing rate at which forests were being cleared for plantations, despite the availability of large areas of degraded land for planting, imposed a new law constituting a moratorium on forest conversion for estate crops (Colchester et al. 2006: 45). Two things were not clear about the moratorium: its validity time and whether it referred to actual forest conversion or to changing the status of forest land (ibid.). In February 2005, the Ministry of Forestry passed two contradictory circulations to the local governments—the moratorium was still effective and the Ministry would evaluate proposals for conversion on their merits in order to optimise the use of forest land for estate crops (ibid.).

In 2006, Presidential Regulation No. 5 was passed. The Regulation stipulated the national energy policy that required biofuel as much as 5% of the total energy used by 2025. Following the regulation, Presidential Instruction No. 1/2006 was issued covering biofuel as an alternative energy source for the country. The government also announced the commitment to make the country the largest biodiesel producer in the world. This further boosted the development of the oil palm sector, as palm oil is one of the essential inputs for biofuel production. As a consequence, in 2007, the government earmarked 6.5 million ha of ‘idle-land’ for biofuel-related crops, including 3 million ha for palm oil (Guerin 2007, as cited in McCarthy and Cramb 2009: 823).

In May 2010, the Indonesian government joined the Reducing Emissions from Deforestation and Forest Degradation (REDD) Initiative and entered into an agreement with Norway, establishing the REDD+ Taskforce in September that year (Hamilton-Hart 2014: 175). This also resulted in the two-year land moratorium issued by the government. The initiative also served as a measure by the government to mitigate the negative campaign against oil palm plantation development.

To expand the downstream sector, the government decided to increase export duty for CPO in 2011. This initiative was expected to encourage oil palm plantation companies invest in establishing their own refinery plants in Indonesia. According to the government agency (interview with Ministry of Industry, 25 June 2012), this policy did not violate the liberalisation measure in
the oil palm sector, but rather encouraged producers to export the processed CPO. It led, however, to the question of whether Indonesia would have sufficient domestic absorption of CPO (interview with Rosediana, ISPO, 29 June 2012). To answer this, clusters of palm oil industry that specifically included downstream operations were laid out. Moreover, apart from the biodiesel industry, this latest attempt from the Ministry of Industry was designed in particular to boost the oleo-chemical industry, as this segment of the palm oil downstream industry was relatively underdeveloped compared to other segments such as food and household products (interview with Ministry of Industry, 25 June 2012).

Apart from using export duty, the government also attempted to increase domestic absorption of CPO by giving subsidies to cooking oil refineries (Chalil 2008). Furthermore, cooking oil subsidies were also provided either indirectly to the end consumers through retailers or distributors, or directly to certain groups (e.g., poor people) through market operations (ibid.). Post liberalisation, this is one of the issues that remained government-intervened, mainly to ensure stable domestic cooking oil prices.

In March 2011, the Ministry of Agriculture issued a decree on Indonesian Sustainable Palm Oil (ISPO). ISPO would be mandatory for all oil palm plantations in Indonesia. As of 2013, there were 20 plantation companies that had been certified with ISPO (Hospes 2014: 434). With the existence of the Roundtable on Sustainable Palm Oil (RSPO), ISPO was perceived as rival governance on sustainability. The Indonesian Palm Oil Commission (IPOC), a government agency designated for the promotion and development of the palm oil sector, claimed that the RSPO does not serve as a correct instrument to achieve sustainable palm oil production in Indonesia given its character as a voluntary governance (The Jakarta Post March 2010, as cited in Hospes 2014: 429). The head of IPOC as well as an important figure in the Indonesian oil palm industry, Rosediana Suharto explains that in terms of the environmental aspect there are no significant differences between the RSPO and ISPO criteria (interview 29 June 2012). Rosediana claims that ISPO is essentially proposed as a way to provide a legal basis for sustainable practices in the palm oil sector in Indonesia. In so doing, there are sanctions imposed for those who violate the regulation. This also implies, as Rosediana puts it, that the government regains more control over the palm oil sector. Furthermore, as Rosediana continues, many large palm oil buyers are members of the RSPO, which may pave the way for negotiation among large buyers on premium CPO price. This may explain the declining price of premium CPO.

On the other hand, Hospes (2014: 429–30) argues that while there are similarities in terms of technology and/or rules defining sustainable palm oil, the main difference lies in the principles of ‘commitment to transparency’ and ‘responsible development of new plantings’ in the RSPO, which are lacking in
the ISPO standard. The ‘responsible development of new plantings’ principle includes the criteria on ‘free, prior, and informed consent’ (FPIC), and together address land conflict issues. The ISPO standards are also seen to provide lax environment standards compared to the RSPO criteria (ibid.: 430–31). Furthermore, the multi-stakeholder approach of the RSPO is absent in the institution and standards of ISPO. The drafting of ISPO standards does not involve NGOs and the IPOC does not include representatives of the palm oil industry (ibid.: 431). Additionally, it is still unclear whether the ISPO standards also apply to the transnational operations of palm oil companies (Nesadurai 2013: 523). It is nonetheless clear that ISPO demonstrates the state’s attempt to counter the negative image of the Indonesian palm oil sector despite its problematic character, as well as to re-exert more influence on the Indonesian palm oil sector.

Examining the above-mentioned policies, McCarthy (2010) classifies three phases of policy measures. In the first phase, the New Order developmental state played a significant role. This is demonstrated by the initial nucleus estate schemes (PIR-NES and PIR-Trans). Indeed, during the New Order era, which spanned between 1967 and 1998, the state searched for a developmental agenda capable of providing political and macroeconomic stability by financing infrastructure and providing subsidies obtained from oil revenue (McCarthy 2010: 828). This was partly demonstrated by government intervention in the agricultural sector, particularly in the oil palm sector, through access to land and capital as well as other institutional support, to upgrade the oil palm sector (Humphrey and Schmitz 2000, as cited in McCarthy 2010: 828). According to McCarthy (2010: 830), the introduction of KKPA marked the transition phase, whereby the government attempted to encourage private sector initiatives and to facilitate foreign direct investment. There were some factors driving this decreasing role of the government. First, the World Bank criticised the state-supported smallholder schemes, urging the withdrawal of the government’s role thereby leaving oil palm development to the market (McCarthy 2010: 828). Second, the government faced increasing pressures on state budget. Third, there was a push from donor advocacy for a more social–private partnership model (ibid.).

After the end of KKPA, policy measures in the palm oil sector began to focus on the involvement of the private sector, with the absence of direct state subsidies for smallholders (McCarthy and Cramb 2009). This served as the beginning of the third phase of policies in the palm oil sector, which were based on ‘neoliberal’ assumptions. Some policies introduced during this phase might have demonstrated the re-engagement of the state. However, this re-engagement remained limited.

Meanwhile, instead of the three phases, Colchester et al. (2006: 44–6) classify five phases of policy measures related to the oil palm sector: first phase, i.e., the
PIR-Trans phase (1986-1993); second phase, i.e., the deregulation phase (between 1993 and 1996); third phase, i.e., privatisation phase (from 1996 up to 1998); fourth phase, i.e., the cooperative phase (between 1998 and 2002); and the final phase, i.e., the decentralisation phase (2002–6).

The participation of smallholders in the Indonesian oil palm plantation sector is also attributed to several government programmes in the early development of the sector, such as the PIR-NES and the PIR-Trans. As explained earlier, the government afterwards encouraged similar contract farming schemes between the private sector and smallholders, such as KKPA and other partnership programmes. As a result, the Indonesian oil palm plantation sector has seen an increasing share of smallholders’ plantations, which currently make up about 40% of the total oil palm plantations in the country.

5.2. Analysing the Power of the State in the Indonesian Oil Palm GPN

The above arguments on the phases of policy development in Indonesian oil palm plantation sector show the changing role of the state. The state took the lead in the initial development of the sector. This predicament changed when the government invited the private sector and eventually allowed the latter to be a major player post liberalisation. This reflected the changing power constellation, particularly between the state and the plantation firms. The latest partnership model, for example, shows how policies are directed in favour of plantation companies. As will be discussed below, foreign private actors also came into the picture when the government decided to liberalise the investment in the oil palm plantation sector.

Furthermore, regional autonomy passed since 1999 has transferred a significant portion of power from the central to the local government agencies. Before this policy was in place, central government played a major role in the development of the oil palm plantation sector. Nonetheless, some central government agencies such as the Ministry of Agriculture and National Land Agency continue to have a significant influence (Hamilton-Hart 2014: 171). As private plantation firms maintained patrimonial links with central government, such connections, since decentralisation, have been maintained with local government agencies. One of the authorities distributed from the central to the local government is with regard to the issuance of plantation licenses. As shown in Fig. 5.1, it is now the governor or district head (bupati) that issues the location permit, which is important for companies in the land acquisition process. The permit should be applied for after companies obtain an investment permit from the National Investment Coordination Board.

This issue of plantation licenses also points to the broader agrarian institutional setting in Indonesia. After independence, the prevailing regulation was the Basic Agrarian Law 1960, which acknowledges customary rights over communal land.
Passed under Indonesia’s first president, Sukarno (1945-1967), the law features a ‘classic’ agrarian reform regulation, phasing out from colonial legal pluralism and establishing a unified land law. The Suharto government (1967-1998), however, implemented the law selectively (Peluso et al. 2008: 219). For example, the law also entitles the state to acquire land for public purposes, going against the wishes of the prior owners (Marti 2008: 28). In this case, people’s well-being is equated with the state (Lucas and Warren 2003: 95). In 1961, the government passed Law No. 20 on the Revocation Rights and Goods above it, which allowed the president to revoke rights for public purposes. This gave room for the revocation of rights by private companies whose businesses had been approved by the government and were in line with national development plans. Though the law is not in place anymore, the spirit of it prevails (Marti 2008: 28). As mentioned in the previous section, the Basic Forestry Law 1967 also allowed the state to have control over the Outer Islands’ forests, which include customary lands. Regulations during the Suharto administration essentially allowed the state to revoke community rights in the name of national development. Local communities were not allowed to directly negotiate with plantation companies, as the latter was usually represented by the government. It was common that military forces were involved to intimidate the communities, and those who refused the oil palm development were accused of being anti-development or pro-communist groups (Marti; 41-42; Lucas and Warren 2003: 90). After the fall of Suharto in 1998, there was an improvement in the regulation setting, which allowed for community participation during land acquisition and permit process (Marti: 28). However, the later regulation changes reflected a discrimination of community rights, including the classification of private companies’ projects as public interests.

The above-discussed agrarian institutional settings show the changing power constellation, which partly reflects the scaling and re-scaling of state power. According to Brad et al. (2015), this process involves the territorialisation and re-territorialisation measures underpinning the establishment and the maintenance of extractive-oriented industries. While the territorialisation measures serve as an important means of state control over land, re-territorialisation allows non-state actors’ claims to territory (Brad et al. 2015: 101). The Basic Forestry Law and the contract farming schemes, for instance, embody the territorialisation process during the early development of oil palm plantations. Meanwhile, the re-territorialisation process involves the state re-scaling its power to sub- and supra-national scales, which provide place-based and territorial preconditions for global capital circulation (ibid.). In Indonesia, this process is demonstrated by the increasing orientation towards the world market (re-scaling to supranational scale) and decentralisation policies (re-scaling to subnational scale) following the fall of Suharto, hence, during the Reformasi era. This means that despite globalisation, decentralisation, and
privatisation, the role of the state remains important. This rescaling process, however, also implies that different non-state groups are allowed to make competing claims over territory; for example, the conservationist groups’ urge to enclose conservation area or the indigenous groups’ attempt to reclaim the customary lands. As will be discussed in the subsequent section on social movement groups, this process provides a landscape for intervention for social movement and non-governmental organisations to exercise collective power.

The changing role of the state, as explained earlier, should be understood within the dynamic shift of the political regime in Indonesia. As discussed in Chapter 7, the political regime in Indonesia has seen a substantial shift from an authoritarian regime under Suharto to a reform era following his fall. It goes without saying that the state played an important role during the initial development of the oil palm sector when Suharto was still in office. As discussed in Chapter 7, the state during this time played a key role to the extent that many state officials as well as military actors held businesses or important positions in private and parastatal companies. Recalling the theoretical preposition of state as a relation of social forces, as discussed in Chapter 3, the Suharto bureaucratic autonomy involved power struggles between state officials (including military actors) and private (both domestic and foreign) actors (see discussions in Chapter 7).

The transition phase of policies in the oil palm sector, which increasingly incorporated private sector and cooperatives, took place slightly before the end of Suharto’s era. This conjuncture is parallel with the state’s attempt to liberalise the market (i.e., second market reform, see discussions in Chapter 7), as the state could not rely on revenue from oil anymore.

The neoliberal phase of policies in the oil palm sector in Indonesia seems to imply the declining role of the state. As will be discussed in Chapter 7, however, the state remains playing an important role, as the fall of authoritarian regime and the country’s embarkation towards market liberalisation led to the reconstruction of power constellation between the state and private actors. Furthermore, such a seemingly declining role has been the result of political decision, which reflects the state’s support for particular policy directions, and how these policies have become the basis for accumulation strategies based on free trade and free market ideologies. It also shows how the state’s power is constrained by the very same social and economic mechanism it seeks to protect. In this case, it confirms the theoretical argument on state as a relation of social forces.

The neoliberal phase corresponds to the shift of the political regime into a reform era. As will be discussed in Chapter 7, this era reflects a reconsolidated power constellation, which consists of political actors or bureaucrats, and entrepreneurs. This shows that despite the alleged decreasing role of the state,
especially following market and trade liberalisation, the state remains an important actor. This goes along with the relative autonomous character of the state.

Given the nature of the oil palm sector, several government agencies and business associations from up to the downstream are interconnected. An interview with a person from the Ministry of Industry (25 June 2012) revealed the presence of an informal group consisting of stakeholders, called Sawit Linkers. The purpose of this group was to discuss palm oil issues subject to policymaking process. Since it was an informal group, decisions made (if any) were not perceived as policy. However, it made it easier for the relevant government agencies to address the interest of the stakeholders, particularly the business actors, when setting up the policy or regulations affecting the oil palm sector. The interview also discovered that the Ministry of Forestry was not included in the group. According to the interviewee, the goal of the group was to reach a consensus among the stakeholders on certain issues, and this would be difficult to achieve when one of the members already had a different view before coming to the table. Furthermore, both GAPKI (Gabungan Pengusaha Kelapa Sawit Indonesia/Indonesian Oil Palm Companies Association) and DMSI (Dewan Minyak Sawit Indonesia/Indonesian Palm Oil Board) did not view the forum as anything more significant than an informal discussion of palm oil issues (interview with GAPKI, 22 June 2012; interview with DMSI, 19 November 2013).

Figure 5.1 demonstrates how the central and local government agencies are interconnected in the plantation license application process. As mentioned earlier, the IUP (Ijin Usaha Perkebunan/Plantation Business Permit) is applied to a regent (bupati) or a governor. For this purpose, a location permit is required. The permit is applied to a bupati, indicating the targeted area. Once granted, applicants are given a certain time frame to acquire required land rights for obtaining IUP and HGU (Hak Guna Usaha/Business Utilisation Right). It is important to make sure that the targeted land lies outside the national forest estate, at least from the forestry perspective. If the targeted land lies inside the national forest estate, then the applicant should obtain a decree of forest release from the Ministry of Forestry. If granted, the decree means that the applied area now becomes the so-called APL (Area Penggunaan Lain/Other Utilisation Area).

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27 *Sawit* is an Indonesian word for palm oil, whereas *linkers* is taken from an English word, *link*.

28 If the targeted area is located across different regency areas, then application should be made to a governor. Similarly, if the area is located across different provinces, the permit should be applied to a minister.

29 Inside the national forest estate, there is certain land area classified as APL.
Figure 5.1.: Plantation Business Permit up to HGU Process  
(Based on Ministerial of Agriculture Decree No. 357/Kpts/HK.3511/5/2002)

Source: Colchester et al. (2006: 61)

The final key process is to acquire the legal tenure to operate the area as an oil palm plantation. This legal tenure is in the form of HGU. Under the Basic Agrarian Law 1960, the concessions of colonial plantations were prolonged up to 20 years, whereas concessions for new plantations were given land use permits or HGU up to 35 years, with a possible extension of another 25 years. The law was superseded by Law No. 18/2004 on Plantations Act, which grants HGU up to 35 years, with a possible extension of 25 years, after which a new
round of HGU application is allowed. The prevailing law, Investment Law No. 25/2007, grants HGU for 60 years, with a possible prolongation up to 35 years. It is also argued that the law prioritises investor rights over community rights (Marti 2008: 30).

The above description of the plantation license application process demonstrates the salient role of the local government. This contributes to the increasing patrimonial links maintained between plantation companies and the local government officials. Such links have contributed to an illegal system of plantation licensing, which serves as one of the roots of land conflicts on oil palm plantations. The illegal system is also one of the main reasons for the pressures to apply a land moratorium in Indonesia.

As mentioned, the case study took place in Riau, a province in Indonesia with the largest oil palm plantations. As will be discussed in the next section, patrimonial links are maintained between palm oil companies and the local government. Such links have contributed to environmental and social problems. The former refers to illegal forest conversion, while the latter points to land conflict issues. Some studies have shown how palm oil expansion in Riau has posed a threat to climate change (Greenpeace 2007).

5.3. Private Actors and Inter-firm Relationships

The institutional arrangements described in the previous section partly shape the inter-firm arrangements in the Indonesian oil palm production network. As mentioned in the previous chapter, the main actors in oil palm plantations are plantation companies and smallholders. The former might be small, middle, or large plantation companies. Smallholders refer to those who own and manage plantations less than 25 ha (Colchester et al. 2006: 43). Parastatal and (large) private plantation companies are vertically integrated and commonly own mills and refineries, while some even operate in the downstream industry. In addition, some private plantation companies or refineries also have subsidiaries which act as marketing offices in their foreign markets, such as Europe. As will be shown in the case study below, parastatal companies have a single marketing office, though this function is carried out individually in the case of private plantation companies.

While parastatal plantation companies played a significant role in the early development of Indonesian oil palm plantation sector, the deregulation and privatisation policies during the 1980s attracted private plantation companies. Since then, these companies have increasingly played a major role in the sector. Some of them are large plantation company groups. In 1997, eight conglomerates dominated the Indonesian oil palm plantation sector, namely, Raja Garuda Mas, ASTRA International, Sinar Mas, SIPEF, Socfin, Napan, Bakrie, and Salim (Casson 1999: 14). It is argued that these large groups
maintained patrimonial links with central government (Hamilton-Hart 2014: 170). Patrimonial links serve as an element of political power, which companies attempt to mobilise in order to influence state policies. As mentioned in the previous section, the regional autonomy policy has shifted these patrimonial links to local government agencies. The Asian financial crisis led to the collapse and restructuring of these groups (interview with Rosediana, 29 June 2012). Currently, the largest domestic palm oil company groups include Sinar Mas Group, Salim Group, Bakrie Group, Medco Group, Musim Mas Group, First Resources, and Rajawali Group (Hütz-Adams 2011: 11).

The government’s decision to liberalise the oil palm plantation sector has brought foreign firms in as new important players to the sector. These firms are mainly Malaysia- or Singapore-based firms. Over time, the Indonesian oil palm plantation sector has seen an increasing influence of these foreign private firms. In 2010, it is estimated that 60% oil palm plantations in Riau and 70% plantations in West Kalimantan were Malaysian-run (Colchester 2011). Recent regulations passed by the government, such as those aimed at boosting the country’s biodiesel production as well as the initiative to expand the downstream industry by imposing higher export tax for CPO, have induced some large plantation companies to invest on their downstream activities in Indonesia. This current policy has also attracted Chinese investors to establish joint ventures with palm oil producers in Indonesia (Rupilius and Ahmad 2007, as cited in Sheil et al. 2009: 20; Greenpeace 2007: 57). This has contributed to the rise of oleochemical processing in Southeast Asia supplied by palm oil and palm kernel oil (ibid.).

The attempt of palm oil companies to vertically integrate the operational activities from upstream to downstream is inevitable. This way, not only do the companies become less dependent on buyers, but they are also able to extract more added value and gain more markets, and earn more profits. As mentioned before, CPO is an important ingredient in a vast range of industries. This would provide the opportunities for palm oil companies to tap different markets. Tracing backwards, vertical integration also allows companies to secure palm oil supplies. As will be explained in the next section, the opportunities for palm oil companies to achieve vertical integration is also partly shaped by the decisions of global companies, (i.e., buyers) to outsource their processing activities.

Nonetheless, not many companies can afford to achieve a full-fledged vertical integration. One of the key factors involved is the financial ability to diversify the operation to cover downstream activities. Financial power is essential for oil palm plantation companies, not only to expand plantations but also to access

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30 In 2002, the major Malaysian-based palm oil companies obtained 208,419 ha plantation areas in Indonesia. This number had increased to 426,000 ha by 2010 (Hamilton-Hart 2014: 167).
downstream operations. Operating on upstream activities alone already requires plantation firms to mobilise substantial financial resources. As mentioned earlier, oil palm tree is a typical estate crop, and thus a vast plantation area is important in order to achieve economies of scale. As explained in the previous section, investment from the state has supported parastatal companies in the early development of the Indonesian oil palm plantation sector. Financial supports from the World Bank and the Asian Development Bank played an important role in the nucleus estate schemes in Indonesia during the 1980s (interview with Rosediana, 29 June 2012). These financial resources were mobilised by parastatal companies to finance their own operations as well as the nucleus estate schemes.

When the private plantation firms started to play an active role, other financial resources were mobilised. As explained in the case study below, these firms rely on financial resources from shareholders and banks. The International Finance Corporation (IFC), for example, has provided credits to Company Z. Some banks that serve as important financiers for palm oil companies include Rabobank, HSBC, Credit Suisse, Standard Chartered, BNP Paribas, ABN-AMRO, ING, and OCBC. As mentioned, before the Asian financial crisis, large company groups and conglomerates dominated the oil palm plantation sector. The financial crisis put some of these groups into financial trouble. Together with the then political instability, this situation meant that banks were less attracted to provide financial assistance to private actors in the oil palm plantation sector during this time.

Moreover, technological power is necessary for processing CPO to produce a variety of downstream products. As described in the case study below, some palm oil companies merge to become large groups, as that would help to mobilise both financial and technological power. Acquiring companies operating in the downstream activities partly allows plantation companies to access the necessary technological capability to expand their activities. Together with financial power, this in turn provides a backbone for them to achieve and sustain market power.

Access to land banks is indeed one of the most important resources for plantation companies. For this purpose, not only would companies need a sufficient amount of financial power, but also political links with government agencies. As mentioned, some large plantation company groups have maintained such links, particularly during the Suharto administration. This has partly allowed plantation companies, especially the large ones, to access land required for their plantation development (Sheil et al. 2009: 40; Marti 2008, as cited in Hall 2011: 847). The weak recognition of customary lands has often overridden the rights of indigenous people of these lands, enabling the government to access more land for palm oil development (Colchester et al. 2006). This has served as one of the causes of land conflicts in the sector. Moreover, many cases
demonstrate how plantation companies agree to enter into partnership/contract farming agreements with local communities with the sole purpose of acquiring lands. This is indicated by the fact that the companies afterwards only take care of their own nucleus plots, while deserting the maintenance of plasma plantations (Colchester et al. 2006: 75). An interview with Sucofindo (interview 6 November 2013), a certifying body for RSPO certification, reveals that companies are recommended to enter into nucleus-plasma or partnership agreement if there are indications of a land conflict between companies and the local people. Moreover, as explained in the previous section, compared to the earlier nucleus estate schemes, the portion of plots allocated for smallholders under the current partnership scheme have decreased (i.e., from 80% to 20% of the total plantation areas). This certainly implies an increase in land accessibility for palm oil companies.

Patrimonial links are also maintained by oil palm companies through local police and military forces. This allows the former to obtain security and protection of plantation areas, especially during events that might disrupt activities on the plantations. This protection is also often needed when land conflicts with the local community take a violent turn (Marti 2008: 21). Indeed, the land conflicts in Indonesia’s oil palm plantation sector may turn to demonstrations, land occupations, arrests, beatings, and death (ibid. 37).

Furthermore, many palm oil companies continue selling CPO to buyers despite being vertically integrated. This shows how these companies may also act as traders in the palm oil GPNs. Acting as buyers from other plantation companies allows some of these companies to control the supply of CPO (Greenpeace 2007: 40). Again, this is only possible if the companies possess financial power. This control of CPO supply held by the traders allows them to prevent the traceability of CPO supply, for example, by indiscriminate purchasing and blending of palm oil. As mentioned, since the government liberalised the Indonesian oil palm plantation sector, there has been an increasing influence of foreign companies in the sector. It is argued that the Indonesian oil palm trade is controlled by Cargill, as well as Malaysian-based plantation firms (Borras et al. 2010: 578).

Forming a business association allows oil palm companies to exercise their collective power. In Indonesia, GAPKI (Gabungan Pengusaha Kelapa Sawit Indonesia/Indonesian Palm Oil Association) acts as an association to voice the interests of the business actors in the oil palm plantation sector (interview with GAPKI, 22 June 2012). Established in 27 February 1981, GAPKI also works together with the government, particularly in policymaking and implementation process. For example, concerning export duty, GAPKI proposes a simplified scheme. The Association actually does not agree with the idea of having an export duty on CPO. While realising the aims of the government towards the development of the downstream palm oil industry, GAPKI is concerned that
imposing such duty would be followed by opportunistic measures taken by some business actors, which in turn would create even more problems in the palm oil markets. This serves as a plausible argument considering that capability of the domestic market to absorb CPO still needs to be improved. GAPKI reveals that the year-on-year figures on government revenue from the export duty in April 2012 fell despite the increased price of CPO during the time. This might indicate ‘smuggling’, in which GAPKI suspects that some producers might claim the CPO as derivatives of CPO. Further, GAPKI points out how the additional charges brought about by the export duty are eventually forwarded by companies to plantation producers, which include smallholders. In terms of the profile of the Indonesian oil palm plantation sector, while GAPKI admits that the negative campaign arises out of genuine concerns about the impacts of the oil palm plantations, it argues that the negative campaign is simultaneously used as a trade ploy. Furthermore, GAPKI also raises the issues regarding moratorium. GAPKI claims, while the current available land bank might be sufficient for plantation areas, the plantation sector would be affected should the moratorium be extended.

While GAPKI represents the interests of plantation companies, DMSI (Dewan Minyak Sawit Indonesia/Indonesian Palm Oil Board) acts as an umbrella association covering seven associations in the palm oil sector from the upstream to the downstream segments. One of the responsibilities of DMSI is to encourage and manage cooperation between palm oil stakeholders’ associations (interview with DMSI, 19 November 2013). DMSI holds monthly meetings among its members to discuss several issues, from the negative campaign against the Indonesian palm oil sector to challenges that hinder the competitiveness of the sector. The Board is, among other related issues, concerned with the export markets of Indonesian palm oil. In this case, DMSI hires consultants and lawyers to be able to access the US market, as Indonesian palm oil failed to reach the emission-saving level set by the Environmental Protection Agency (EPA). In contrast to GAPKI, DMSI appreciates the regulations imposing export duty. The Board claims that there has been an increase in investment, particularly from Malaysia, into the downstream palm oil industry. Nonetheless, DMSI urges the government’s consistency in implementing the regulations as well as executing coherent policies. Moreover, DMSI actually welcomes foreign players in the Indonesian oil palm sector, as long as it brings in advancement of the sector’s performance. DMSI also faces several internal challenges. The Board does not receive financial support from the government, and thus relies solely on members’ fees. Not all members have sufficient funding. With the exception of GAPKI, GIMNI (Gabungan Industri Minyak Nabati Indonesia/Association of Indonesian Vegetable Oils Industry), APOLIN (Asosiasi Produser Oleo-Chemical Indonesia/Indonesian Oleo-Chemicals Manufacturers Association), and APROBI (Asosiasi Produser
Biofuels Indonesia/Indonesian Biofuels Producers Association), the members of DMSI mostly struggle financially. This may serve as one of the reasons why DMSI is not as powerful as the Malaysian Palm Oil Board (MPOB). DMSI reveals that its officers are mainly volunteers, unlike those of MPOB, whose officers are paid full-time professionals.

The buyers are large companies that already have established markets in the downstream segment (e.g., food, oleo-chemical, cosmetics, and household products), such as Unilever, Nestle, Protect, and Gambler, etc. This group of actors may also consist of retailers. The increasing role and influence of retailers is partly attributed to their success in marketing private labels and branding (Palpacuer and Tozalni 2008: 88). Buyers are the most important consumers of palm oil (Mather 2008: 63). Some of these buyers produce iconic brands of food, household, personal, and cosmetic products. Hence, market access for new entrants in the downstream industries is to a certain extent dictated by these buyers. The rising biofuel industry has attracted some of these buyers—palm oil companies, as well as new actors—creating a global biofuel complex linking these actors (Borras et al. 2010). Buyers do not have direct control over plantations (McCarthy et al. 2012b: 532). Thus, they could easily get away from negative impacts on their image resulting from international pressures by discontinuing supply from palm oil companies accused for unsustainable practices.

For cost efficiency, palm oil has been mainly transported in bulk volume. This implies specific activities on bulk shipping and storage. These activities might either be handled in-house by palm oil companies or outsourced to other companies that focus on logistic activities. This serves as one of the reasons for the important role of Rotterdam in the palm oil market in Europe. Providing bulk storage for palm oil, Rotterdam has served as the main port for imports of palm oil in Europe (Greenpeace 2007: 42). Rotterdam has been the main host for palm oil trading in the European market. The CPO price set in this market (i.e., cost, insurance, and freight/CIF Rotterdam) has been one of the price references in the global oil palm market. Apart from Rotterdam, Malaysia Derivatives Exchange (MDEX) also becomes a reference when it comes to global palm oil prices. Both of the price references already have well-established infrastructures with important palm oil producers, traders, and buyers been actively involved. These features are lacking in the Indonesia Commodity and Derivatives Exchange (ICDX), making it as a less salient price reference compared to Rotterdam and MDEX (interview with GAPKI, 22 June 2012). This implies the dependency of Indonesian oil palm plantation sector on the global market, despite being the largest producer of CPO.

Meanwhile, smallholders (both independent and plasma) participate in oil palm chains characterised by a captive or quasi-hierarchal relationship. Initially, independent smallholders might be considered to be involved in arm’s length or
market-based relationships as, for example, they are allowed to sell FFBs to any mills. In practice, however, there are constraints for independent smallholders for doing so. For example, in some areas in North Sumatra, a minimum volume of FFB sales is predetermined, in which smallholders with sales volume less than 15 ton are not allowed to sell FFB directly to oil palm mills (Nakajima et al. 2010: 4). In this case, smallholders have to sell to middlemen, who later sell the FFB to oil palm mills. In Riau, these middlemen or traders are called ‘toke’ or ‘toke sawit’. In some other areas in North Sumatra, although with sales volume less than 15 tons, smallholders are allowed to sell directly to oil palm mills, yet they have to pay a certain amount of fees to the subsidiary of the mills or cooperatives (ibid.: 5). Nonetheless, direct sales are generally afforded only by large smallholders, as smallholders need to use large trucks to transport FFB to oil palm mills. Apart from this constraint, independent smallholders also have to consider other aspects that might constrain them in selling their FFB, such as offered FFB prices, the quality requested by mills, and the distance from the mills. For independent smallholders, the price of FFB is determined by market mechanism. As they do not have much access to information in the market, these smallholders are largely price takers. All these show how independent smallholders actually participate in oil palm chains characterised by captive relationship.

It is argued that the nucleus estate scheme was derived from contract farming that the World Bank and other actors had implemented in Africa and other developing countries (McCarthy 2010: 829; McCarthy and Cramb 2009: 115). It illustrates the efforts to develop ‘mutual advantageous mutual hostage’ relationships with big companies, in which the government offered favours in return for several forms of ‘enticements’ (McCarthy 2010: 829). In this case, the state offered ‘free’ and credit at concessionary rates in exchange of the inclusion of smallholders in peripheries (ibid.). Plasma farmers, for example, have to sell their FFB to oil palm mills in nucleus plantations, which are owned by parastatal or private plantation companies. Hence farmers enter into a monopsonistic relation with the palm oil companies (Colchester et al. 2006: 38). Before 2005, the price of FFB sold by plasma farmers was determined by the market mechanism. In 2005, the government passed a regulation that attempted to protect plasma smallholders. Based on this regulation, FFB price was determined by a pricing team, which included a government-run body representing smallholders (i.e., APKASINDO; Marti 2008: 70). This meant that smallholders were not directly and independently involved in determining the price. Moreover, in some cases, nucleus plantation companies determined the price based on their own calculations (Nakajima et al. 2010: 4; Maryadi et al. 2004). As price takers, it is difficult for smallholders to reap the benefits from any rising price of CPO (Sheil et al. 2009: 40).
Although smallholders (both independent and plasma) have channels to sell their FFB, it does not mean that they are able to sell immediately. This is because palm oil mills, mostly owned by parastatal and private plantation companies, give priority to FFB sourced from their own plantations. Owing to the perishable characteristics of FFB, this creates a loss for smallholders. All these lines of arguments show how plasma farmers involve oil palm chains in a captive and quasi-hierarchal relationship.

Apart from difficulties in getting access to palm oil mills, smallholders commonly encounter problems in purchasing high-yield seedlings, mainly due to their limited financial means to buy such seedlings (Zen et al. 2005). This situation is exacerbated by the presence of counterfeit seedlings in the market. As mentioned before, around 60% to 70% smallholders’ plantations rely on this type of seedling. This problem also highlights the weak role of cooperatives.

Limited supply of fertilisers is another challenge facing the smallholders (Sheil et al. 2009: 44). It creates intense competition between plantation companies and smallholders. Despite government subsidies on certain fertilisers, such competition hinders smallholders from accessing sufficient fertilisers. The problems with accessing high quality seedlings and fertilisers are likely the case for independent smallholders, as nucleus estates handle the preparation of the plantations that would be managed by plasma smallholders. Furthermore, independent smallholders are at a disadvantaged position compared to their plasma counterparts in terms of preparations of land in general. Such preparations often need installation of drainage canals, terracing, and roads, which are best done by machines. Together with a waiting period of three to four years, until the palm trees mature, these preparations require the availability of significant upfront capital.

In order to access the land area required for cultivating palm oil, smallholders often rely on bank loans as the source of their financial power. In the initial development of the sector, this was relatively easy to obtain as the government provided subsidies through the banks. In Riau, middlemen or toke sawits are able to use their accumulated profits to open and develop oil palm plantations under the name of local small firms. This also serves as one of the factors contributing to the increase in the share of smallholders operating in the oil palm plantation sector. Plasma smallholders may not face problems to access land for cultivation. In some cases, plasma smallholders receive plots previously owned by the local community. As an example, villagers in a district in Sulawesi were forced to release their fertile lands for an oil palm scheme. While these villagers had expected that they would get back a part of the lands as scheme plantations, the majority of the plasma plots were in reality transferred to participating migrants from other islands (Li 2011: 289). This shows how contract farming may provide access to land for a certain group of people at the expense of another group. It also reflects how the government and/or palm oil companies
use the nucleus estate or partnership schemes as a way to obtain land reserves for developing oil palm plantations (McCarthy and Cramb 2009). In the meantime, plasma smallholders may encounter problems in the process of handling the plots. It is reported that some smallholders have to wait for eight or more years to receive their plots, and some do not receive them at all (Marti 2008: 68). The latter case occurred in a village in Riau, where out of 5,000 entitled families only 4,658 received plots (ibid.).

Independent smallholders are not a monolithic group. Patrimonial links maintained between palm oil companies with local government agencies also allowed the government officials to access some oil palm plots. These plots are obtained as concession for permits or licenses granted to the companies (McCarthy et al. 2012a: 558). Sometimes, local village leaders make such secret deals with plantation companies (interview with Sucofindo, 6 November 2013). This situation has created another group of independent smallholders.

All these challenges facing smallholders may serve as the underlying reasons for their inability to reap benefits from palm oil development. Some studies discover how smallholders only earn the minimal and are trapped into debt (Colchester et al. 2006: 38; Marti 2008: 73). Some of these unfortunate smallholders had to eventually sell their lands and/or become wage labourers on the plantations operated by palm oil companies (Colchester et al. 2006: 76). This situation is exacerbated by the difficulties on growing food crops due to the conversion to monoculture system in palm oil plantations. As such, smallholders have to rely on cash and food supply on the local market to survive, which implies increasing living expenses (Marti 2008: 11).

That smallholders are disproportionately affected by the expansion of the oil palm plantation sector poses the question about the role of the government. In this regard, the government should eventually provide support to the smallholders. The impressive performance of the palm oil plantation sector has become a significant source for government revenue. The revenue from export duties, for example, can be allocated to finance support for the smallholders. However, in reality this seems to be relatively lacking (interview with Rosediana, 29 June 2012; interview with DMSI, 19 November 2013).

The above-mentioned challenges also point out the prevailing weak role played by farmer groups and cooperatives. If cooperatives function effectively, smallholders would be able to have more access to high quality seedlings, fertilisers and financial supports for land preparations and other necessities. Cooperatives could also organise transportation of FFB from plantations to the mills, which would have otherwise been too costly for individual smallholders. In the case of independent smallholders, cooperatives could also organise bulk FFB sales to the mills in order to meet a certain minimum volume requirement set by the mills. This would then phase out the role of middlemen or toke sawit.
It is reported that some cooperatives make late payments to the smallholders as a way for the cooperatives staffs to earn interest (Marti 2008: 71).

As mentioned, some of the plasma smallholders also face situations in which their plots are not well prepared and even deserted by nucleus companies. It is also reported that some smallholders complain that they receive a lack of technical support from companies and the government (Marti 2008: 71). This situation, together with the difficult access to high quality seedlings and fertilisers, contribute to the low productivity of smallholder plantations.

5.4. Case Study of Oil Palm Plantations in Riau

Case Study of Company X

As mentioned in the previous chapter, this research takes the case of plantations operated by parastatal, foreign-owned private plantation companies as well as those owned by smallholders. There are 11 parastatal companies in Indonesia that manage oil palm plantations, and Company X manages the plantations located in Riau province. Company X was established on 11 March 1996 as a consolidation of some parastatal estates located in Riau. Apart from oil palm, Company X also manages rubber plantations as well as four rubber mills. It owns 12 palm oil mills spread over its plantations as well as crushing plants producing palm kernel oil and palm kernel meal. The company is also involved in the NES scheme and manages around 74,526 ha plasma plantations. Together with its own nucleus estates covering 86,219 ha, the company operates around 160,745 ha plantation areas. These total areas cover 25 estates, which includes Estate X. Estate X covers 2,900 ha oil palm plantations and employs 480 workers. On the estate, there is a palm oil mill owned by Company X, with a production capacity of 30 tons/hour. The mill receives FFB produced from Estate X as well as from the surrounding plasma plantations.

The marketing of palm oil produced by these parastatal companies is conducted by KPBN (Kharisma Pemasaran Bersama Nusantara/Kharisma Archipelago Collective Marketing). KPBN only handles the sales of the CPO, whereas logistics and delivery are taken care of by each of the parastatal company (Interview with KPBN, 12 June 2012). The CPO are sold in the domestic market as well as exported. KPBN sells CPO through two schemes. Afterwards, the company determines from which plantations the CPO is sold. The respective plantation companies receive the sales revenue, whereas KPBN receives an agent fee amounting to 0.25% of the FOB (Free on Board) price. The first selling scheme involves a long-term contract of supply (e.g., three or six months). The second scheme is through bid offer. In this regard, there are local and foreign tenders, each of which are attended by local and foreign buyers, respectively. The CPO sold locally is used mainly for producing cooking oil. The main ports for exported CPO are Belawan and Dumai, both located in
In this case, the CPO produced by Company X is shipped to Dumai port. Before getting shipped to Dumai port, the CPO is stored in a piling tank. The tank is operated by PT Sarana Agro Nusantara (PT SAN), owned collectively by several parastatal companies. The main export destination of the CPO is India. According to the interview with KPBN (12 June 2012), foreign buyers mainly consist of traders, whereas local buyers comprise of traders and processors. At the time of interview, KPBN only served the domestic market. Among the company’s major domestic customers are: PT Bukit Kapur Reksa, Multimas Nabati Asahan, Musim Mas, Astra Agro Lestari, and Permata Hijau Sawit. The first two companies are subsidiaries of Company Z, whereas Musim Mas and Astra Agro Lestari are considered as two of the large domestic private firms operating in the palm oil sector. Apart from the CPO, KPBN also exports palm kernel meal and sell palm kernel oil in the domestic market. The rapid move of the government to boost the downstream segment of the palm oil sector has given birth to a plan to make one of the parastatal companies operate both in the upstream and downstream activities. In this case, the marketing functions currently operated by KPBN will be taken over by the parastatal company, whereas in future, KPBN will be focusing on logistic services.

The seedlings of the oil palm cultivated in Estate X are supplied from PPKS (Pusat Penelitian Kelapa Sawit/Indonesian Oil Palm Research Institute). Apart from being an agriculture-focused research centre for Indonesian palm oil sector, PPKS has been one of the major seedling suppliers for oil palm plantations in Indonesia. The major seedling suppliers include PT Socfindo, PT London Sumatra, PT Dami Mas Sejahtera, PT Bina Sawit Makmur, PT Tunggal Yunus Estate, and PT Tania Selatan. PPKS was established on 26 September 1916 under the name of APA (Algemeene Proefstation der AVROS/Algemene Vereniging voor Rubber Ondernemingen ter Oostkust van Sumatra). Initially, it focused on agricultural research for rubber, while later it expanded its interests in tea and palm oil. APA then merged with other agricultural research centres, one of which was established by parastatal companies in 1963 and named PPKS. As will be explained below, PPKS plays an important role in the Indonesian oil palm sector as it also carries the responsibilities to supply oil palm seedlings to smallholders. Nonetheless, the company experienced a declining market share from around 49% in 1997 to about 24% in 2007. This was notably because of the emergence of new players in the seedling market and the strengthening market position of PT Socfindo (Liwang 2009). Parastatal companies make up

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31 The FFBs produced on Estate X are brought to the nearest oil palm mill, which is also operated by Company X. The CPO produced is initially stored in the stacking tank located in the mill before it is brought to the stacking plant managed by PT SAN.

32 Between 1997 and 2003, there were only three major seedling producers, namely, PPKS, PT Socfindo, and PT London Sumatra (Liwang 2009).
around 18.9% of the company’s sales, 56% are private plantation companies, and the rest are smallholders, including farmer groups and cooperatives. The company focuses on producing good quality seedlings by considering the plot conditions (interview with PPKS, 27 April 2012). Although the company is perceived as a government institution, it does not receive subsidy from the government. The company relies only on seedling sales, the operation of its own plantations, and research activities.

According to the interview with PPKS (27 April 2012), the company is obliged by the government to offer price affordable for the smallholders. As such, the government determines the sales price of seedlings offered by PPKS. Smallholders who own less than 25 hectares of plantation areas receive a 10% discount of the sale price. The interview also revealed that the sale price of the seedlings depends on the demand of the CPO. The increase in seedling price usually follows the increase in CPO demand. Since the price of seedlings sold by PPKS is determined by the government, the company has difficulties in competing with the prices offered by other seedling suppliers. Another challenge relates to the presence of seedlings in the market coming from unknown sources whose quality cannot be guaranteed. As a case in point, the local government agency for estates in Aceh announced that it distributed 1.5 million oil palm seedlings, whereas according to PPKS only 150,000 of the seedlings were actually supplied from the company. In another case, the local government agency for the estate bought seedlings from PPKS, but sold seedlings from unknown sources to smallholders and farmers. In this case, PPKS blamed the local government agency estate for the problem.

PPKS also actively approaches smallholders and farmers in marketing oil palm seedlings. The company has two initiatives for this purpose. The first initiative is called Porwitra, in which PPKS approaches farmers and smallholders and provides consultation and advice on oil palm seedlings and sells the seedlings to them too. This programme is solely financed by PPKS. The second initiative is called Desa Binaan (guided village), which focuses on a number of villages in a certain district where 60% of its income relies on oil palm plantations. PPKS sends out a team to research the villages needs and follows this up by delegating experts on the related issues (e.g., seedlings, replanting, relations with palm oil mills, etc.).

Apart from the two initiatives, PPKS also conducts training on oil palm cultivations normally attended by farmer groups or cooperatives. The company admits that the training cost is relatively expensive for the farmers and that they also have to bear the transportation costs for them to visit the PPKS office in Medan. This serves as a challenge facing oil palm smallholders and farmers, particularly the independent ones. This situation would hinder the opportunities

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33 In this case, the seedlings bought from PPKS are for officers’ private use.
for smallholders and farmers to expand their knowledge, especially on issues related to good quality seedlings. This is exacerbated by the presence of counterfeit seedlings in the market. According to PPKS, it is sometimes difficult to differentiate the genuine PPKS seedlings from counterfeit ones, as the latter sometimes come with the same or an even higher price. It is also often the case that the logo and stamp of PPKS are copied and used in the counterfeit products. The interview also revealed that around 60%–70% smallholder plantations use counterfeit seedlings. This inevitably affects the overall productivity figure of oil palm plantations in Indonesia. PPKS explained that in Malaysia, FELDA (Federal Land Development Authority) plays an active role in organising good quality seedlings. Currently, parastatal plantations have the highest rate of productivity due to their locations in first-grade area. The figure is followed by private and smallholder plantations. Due to the large use of counterfeit seedlings on smallholder plantations, palm oil mills sometimes ask for the identity (e.g., certificates) of the seedlings from smallholders or farmers. To get away from this, according to PPKS, farmers sometimes buy 200 seedlings from PPKS and show the certificate to the mill although farmers actually supply FFB from more than one hectare plot.

Apart from PPKS, there are other two major seedling suppliers in Indonesia. The palm trees on plantations managed by estates X and Z are the products of seedlings from PPKS. While Company X does supply its seedlings from PPKS, it is inconclusive whether Company follows the same rule, given that Estate Z was acquired by the company. Meanwhile, Company Y produces its own seedlings.

The case study of Company X shows the parastatal palm oil production nexus that involves interdependent entities. The arrangements are regulated through government regulations. Recalling the discussions in the previous section, while the parastatal companies were the main drivers during the initial phase of oil palm plantation development, they are no longer the big players in the Indonesian oil palm GPN. As mentioned above, Company X was established as a consolidation of a number of parastatal companies. This move coincides with the then government’s attempt to increase privatisation in parastatal companies, to encourage the involvement of the private sector, as well as to regulate

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34 Interview with Rosediana, from the Indonesia Palm Oil Commission (29 June 2012), shows that plantations operated by plantation companies in Indonesia have high productivity, even higher than that of Malaysia.

35 First-grade area is considered as the best plot for cultivating oil palm plantations in Sumatra. The area covers North Sumatra, Aceh, West Sumatra, and some parts of Riau (e.g., Rokan Hulu, Bagan Batu, Pelabuhan Batu). Second-grade area includes Riau (only Indragiri Hulu), Jambi, some parts of West Sumatra, South Sumatra, Lampung. Third-grade area is Riau in general.

36 One hectare of plantation area generally requires 200 seedlings.
competition between companies. Increasing competition due to trade liberalisation as well as attempt to develop the downstream industry are the two reasons for the recent government’s plan to consolidate upstream and downstream operations under one holding parastatal company. The plan includes transferring 90% government shares of Company X to another parastatal company that will be restructured as a holding parastatal company.

At the time of the interview, Company X was not a member of the RSPO, whereas two parastatal companies and KPBN were members. According to the interview with the chief assistant of Estate X (Interview 3 April 2012), the RSPO consists of stringent regulations and Company X is currently focusing on ISPO (Indonesian Sustainable Palm Oil). As will be explained below, the RSPO-certified palm oil is destined for the European market. KPBN does not perceive that it is a crucial issue that most of the parastatal oil palm plantation companies are not members of RSPO and do not produce RSPO-certified palm oil, as its main CPO export destination is India. According to the interview with KPBN (12 June 2012), the shift of the export market to India and China took place after the Asian financial crisis. As discussed in Chapter 2, this crisis was followed by an export ban and high export tax. Given the cheaper transportation costs to India and China, these two markets have become attractive ever since. Another reason, as revealed in the interview, is the strict regulations of the European market. Here, the interviewee referred to the terms dictated by FOSFA (Federation of Oils, Seeds and Fats Association) relating to the procedures and logistics of palm oil, which should be met in order to access the European market. Nevertheless, in May 2016, Company X became a RSPO member.

Smallholders’ Experiences

Estate X previously had a nucleus estate scheme involving migrants from Java. As mentioned in the previous section, this scheme was called PIR-Trans. Thus, the village surrounding the estate comprises migrants who came for this scheme in the past. I interviewed some of the previous plasma smallholders. The first smallholder that I interviewed was Ibu P. Ibu P came to Estate X as a PIR-TRANS participating farmer. She mentioned that there were 24 persons from her village in Java who also participated in the scheme in the past. She came with her three children. Ibu P received a salary in the first year of the PIR-TRANS scheme. Apart from having an oil palm plot, she also opened a small grocery shop. For her, the income from the small oil palm plot was not enough for her and her children. She sold the FFB from her oil palm plot to a cooperative, which took care of all the necessary works, including the arrangement with Estate X. It took ten years for Ibu P to pay off her debt from the PIR-TRANS scheme. She also employed one labourer to do harvesting activities, whom she payed Rp 100,000/ton. Meanwhile, the garden plot she received as part of the scheme was
also cultivated with oil palm trees. The FFB from this plot was, however, sold to a trader or middleman. She could have actually sold to a farmer group, which buys at higher price. Nonetheless, she mentioned that she has been regularly selling to the trader. This could imply an element of trust between her and the trader.

The second smallholder whom I interviewed was Pak S. He also came previously as a PIR-TRANS-participating farmer. According to him, it took five years to repay his debt from the PIR-TRANS scheme. He also sold the FFB to a cooperative, who undertook a range of tasks from weighing to transporting FFB to mill X. He employs one harvester with a payment of Rp 100,000/ton. Like Ibu P, Pak S also has an additional income from his casual job as a well digger, as well as from cattle farming. According to him, the income from the oil palm plot suffices his needs.

The above two cases were cross-checked in the interview with the cooperative MP (pseudonym). According to the cooperative, the participating transmigrants had to wait for around seven months until they received their plots, and another year, till the amount of their debt was declared. Once the plots were distributed, the smallholders started to work on their own plots. Some decided to employ labourers for harvesting activities when they found other economic activities. The cooperative MP argues that it is not difficult to find a harvester and that those who work as harvesters are usually migrants. The payment amounting to Rp 100,000/ton is the common deal. The cooperative MP sells FFBs supplied from smallholders or farmer groups to Company X, charging the smallholders or farmers Rp 71/kg of FFBs. The largest share of this charge goes to transportation cost, followed by the cost of unloading the FFB from transport trucks. Meetings between the cooperative MP and Company X regularly take place in order to discuss the FFB price. The meetings are also used to channel complaints from smallholder members. Furthermore, the cooperative MP sometimes hosts workshops for farmer groups, such as on oil palm cultivation know-how.

The interview with the cooperative MP also reveals several ploys that may cause adverse effects for plasma smallholders. For instance, once there was an ineffective fertilising activity on the nucleus estate. As a result, the FFBs harvested were not optimal. This in turn led to the oil extraction rendement\(^{37}\) from plasma estates to be less than that from nucleus estates. Another case involved a foreman who claimed to work for 30 days, while he actually worked for only 10 days. The extra money from the working day gap was distributed between the foreman and the workers working under him. This, however means that the expenditure towards preparation and maintenance were higher than the actual costs, which in turn had to be partially covered by the smallholders.

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\(^{37}\) Oil extraction rendement is a percentage of the oil extracted of the total FFBs milled.
I conducted an interview with Pak T from the farmer group MS consisting of farmers or smallholders located around Estate X. The interview revealed that farmers or smallholders may actively seek help from the local government agency with regard to procuring good quality seedlings. This is considered the best way to avoid the possibility of getting counterfeit seedlings at the market. The farmer group also explained that smallholders or farmers essentially have two options to sell FFBs, that is, either through a cooperative or a trader.

I also interviewed Pak Sa, an independent smallholder in the area surrounding Estate X. He was able to acquire a plot from his savings. Pak Sa was previously a plasma smallholder. Through a middleman, he sells FFBs to a mill that is not owned by Company X. He is not a member of any farmer group. However, he, together with nine other independent smallholders formed a group to share road maintenance costs. Meanwhile, it is each smallholder’s own responsibility to purchase materials for maintenance activities, such as fertilisers. Seedlings are procured either from a local small plantation or from seedling traders who come on door-to-door basis. Estate X is not allowed to sell seedlings to independent smallholders. Confirming the above interview with the farmer group MS, Pak Sa also explained that it is possible to ask for help from the local government agency for estate, but one needs to be more proactive in approaching the local government agency. In the meantime, one independent smallholder in this group is a teacher, who bought a plantation plot from a plasma smallholder. These cases reveal the plight of plasma smallholders who eventually have to sell their plots to someone else.

Pak Z was a plasma smallholder but had to sell his plot due to rising expenses incurred than actual profits earned. Pak Z, however, also indicates that he was not successful in cultivating the garden plot he received for growing food crops because he did not possess the technical knowledge needed. He then sold this garden plot of 0.5 ha, and later used the money to partly finance the purchase of a 2 ha plot, which he manages as an independent smallholder. He sells the FFBs to a trader due to the inferior quality of the FFBs. Pak Z can choose which trader he wants to sell. In this case, he underlines that smallholders have to be cautious regarding the weighing practice, as sometimes traders cheat to earn more profit. Apart from FFBs, Pak Z also sells individual fruits to the trader. He also pays the harvester who works for him with the amount commonly paid in that area. The harvester is a migrant worker, who also works in other smallholders’ plots. Pak Z is not a member of any farmer group or a member of a cooperative.

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38 Another challenge for smallholders to sell FFBs directly to oil palm mills is related to the quality of the FFB. Usually palm oil mill will not receive poor quality FFBs. As a result, independent smallholders have to sell to a trader or a middleman.
I interviewed a local trader, Pak Su, who employs six workers. Pak Su maintains clientele relation with smallholders in procuring the FFBs. That way, competition with other traders may be limited. Pak Su is also not bound to a certain palm oil mill. He can sell to any palm oil mill. Pak Su sells FFBs with intermediate quality. He is also responsible for transporting the FFBs produced by members of a certain cooperative. For this logistic service, he charges the cooperative Rp 63/kg of FFBs. Apart from operating as a trader and transport provider, he also manages a fish farm as his side business. Regarding the possibility of disputes on weighing of FFBs, Pak Su leaves it up to his customer, whose weighing equipment is used. If smallholders do not trust him, they can use their own weighing equipment.

The above discussions demonstrate the variations in oil palm production nexus involving plasma and independent smallholders. The interviews confirm some of the challenges facing smallholders as discussed in the previous section. The interviewed plasma smallholders have either another side-job or side-business, as income from the oil palm plot alone is not sufficient. One of the reasons for this, as the interviews reveal, is the costs that the plasma smallholders have to bear are greater than the FFB sales. In some cases, as discussed above, the plots are then sold to someone else. This gives an opportunity for an individual to buy the previously plasma plot and become an independent smallholder. The opportunity to procure an oil palm plot is not only open to a common civilian, but also to a government official. As mentioned in the previous section, this in turn creates another group of independent smallholders.

The interviews show how smallholders are dependent on a cooperative, a farmer group, and a palm oil mill. Particularly for independent smallholders, when a functioning cooperative or farmer group is absent, smallholders have to rely on a trader or a middleman to sell their FFBs to a palm oil mill. Relying on a trader or a middleman eventually reduces the profits gained by the smallholders. The reliance on a palm oil mill partly shows how smallholders are caught in captive relations with plantation companies, as a palm oil mill is often owned by a plantation company.

The case study shows that smallholders (both plasma and independent) employ harvesters, who are mainly migrants, thereby making labour costs affordable for smallholders. The current mode of employment mirrors what happened in the past. Oil palm plantations in Indonesia continue to rely on the supply of migrant labour.

The productivity of the plot and the quality of the FFBs relies on the know-how about oil palm cultivation possessed by smallholders. This in turn can be attributed to the success (or failure) in managing oil palm plots. For independent smallholders, this issue underlines the important role of a cooperative or a farmer group, from whom the necessary know-how can be accessed. As
revealed in the interview with the independent smallholder, the inferior quality of the FFBs produced may be associated with the absence of (or the non-affiliation with) a cooperative or a farmer group.

The increased competition following trade liberalisation in the oil palm sector inevitably undermined smallholders given the unequal power relations between smallholders and plantation companies. For instance, the price competition implies a decrease in CPO price, which eventually translates to decrease in FFB price. For independent smallholders who rely on traders or middlemen, this means less profit.

Case Study of Company Y

As mentioned in the previous chapter, Company Y is considered as one of the big players in the Indonesian oil palm plantation sector. The company is a part of a Malaysian-based conglomerate. The group is a result of a political merger of three of the most important state palm oil companies in Malaysia, all of which have a historical background dating back to the colonial period (Pye 2013: 7; Hai 2013). The reason for this fusion was ‘to harness potential synergies that will enable it to deliver greater value to its stakeholders through greater integration and consolidation of key business value chains’ (Company group Y 2008, as cited in Hai 2013: 29). It operates on diverse activities such as plantations, industrials, motors, property, as well as energy and utilities. In plantation activities, Company Y is fully integrated from downstream to upstream. In the upstream segment, it operates plantations, palm oil mills, and crushing plants. According to the company website, it serves as the world’s largest producer of sustainable palm oil. In the downstream segment, it operates on food- and non-food based activities, with eight refineries in Southeast Asia, the Netherlands, and South Africa.

The interview with the marketing department of Company Y in the Jakarta office (Interview 14 June 2012) showed that the products of the company’s plantations are CPO, PKO, FFB, and waste oil. In a year, the company sells around 950,000 tons of CPO and 200,000 tons of PKO. In terms of FFB, Company X buys from outside its own estates to meet the supply of its mills. When the mills have over capacity, the company sells it to another. Meanwhile, waste oil is produced from palm kernel shell. The company generally uses the shells to burn the boiler in the palm oil mill. The major destinations for its exports are Malaysia and India (these countries have refinery capacity). Company X sells CPO mainly to refineries. Only when it cannot find refineries will the company sell to traders. As mentioned above, the group to which the company belongs has refinery plants in Malaysia. At the time of the interview, the company did not have any refinery capacity in Indonesia. When selling to the domestic market, Company Y also stated that it does not sell CPO to traders,
but to companies that own plantations and mills in Indonesia. The company also makes sure that it only buys and sells from and to reputable companies. As for selling to foreign traders, Company Y studies the background of these traders.

Domestic sales are done through auction or tender, in which buyers have to submit their bids. Company Y then decides on the highest bidding. In the auction, the company sets the benchmark price in order to get an idea of the market price. Here, they refer to the price published by Astra Group. Unlike in Malaysia, there is no official regulation on a benchmark price for CPO. In Malaysia, such a price is published by the Malaysian Palm Oil Board (MPOB). KPBN also publishes its benchmark price. Considering that the plantations of parastatal companies are mainly located in Sumatra, whereas those of Astra Group are more dispersed located in Indonesia, Company Y chooses to refer to the benchmark price published by Astra Group. Here, the company sets the price published by Astra Group as the minimum price for the bidding process. During the interview, it was found that Company Y was not aware of the existence and the role of DMSI (Dewan Minyak Sawit Indonesia/Indonesian Palm Oil Board) and KMSI (Komisi Minyak Sawit Indonesia/Indonesian Palm Oil Commission). Even if these two bodies of organisation publish anything, Company Y is concerned about the accuracy of it, as in Indonesia it is often the case that people manipulate the data. This is unlike in Malaysia, where the business actors trust the MPOB. Company Y may then agree to supply certain quantity of CPO every month to a certain buyer. For instance, the company is supplying 15,000 ton CPO to Company Group Z. In fact, Company Group Z is the largest buyer of Company Y. Following Company Group Z, there are Musim Mas, Sinar Mas, Salim Group, and PT Best. All of them are domestic private plantation companies.

As for foreign sales, Company Y does not hold auction. Instead, there are two schemes employed by the company. In the first scheme, Company Y contacts the buyers directly. The company usually goes to buyers it has known very well. In the second one, the company sells through brokers. The task of the brokers is to gather the information about buyers who offer the highest and lowest price. It is also the responsibility of the brokers to negotiate the price until they find buyers who are willing to buy at the price Company Y is looking for. The company will then investigate the background of the buyers. Brokers will get commission amounting to $1/metric ton. The fact that the international market is very large serves as one of the reasons why Company Y goes to brokers. Unlike Company Y, brokers already have the network and the information on potential buyers. Besides, according to the company, going directly to buyers does not always guarantee that it will get higher price. There are also buyers that prefer to buy from brokers, as they believe that brokers can offer them the best price.

The interview revealed that the high export duty for CPO between 2010 and 2011 impacted the company’s decision to sell the CPO abroad and led to the
company’s decision to build refinery in Pulau Laut, Kalimantan, Indonesia. The location was chosen given that 20% of the company’s total CPO production comes from plantations in Kalimantan. The decision for Company Y to invest in building a refinery plant in Indonesia poses a question on the extent of the vertical integration of Company Y with its company group. Although the company is actually selling CPO to a refinery in Malaysia that is also a member of the same company group, Company Y still needs to make sure that the sales remain profitable. Unless the refinery in Malaysia is willing to compensate the high export duty for CPO borne by Company Y, the latter considers it better commercial sense to sell the CPO in the domestic market. As for its refinery counterpart in Malaysia, it has to source from a third party outside Indonesia. The company group’s refinery in Europe sources the CPO from plantations in Malaysia, as the estates and plantations managed by the group in Malaysia are fully RSPO-certified. Actually, Company Y was prepared to supply CPO to the refinery in Europe, but the high export duty forbids this from happening.

As mentioned above, the company group serves as the world’s largest producer of sustainable palm oil. Company Y particularly admits that it strives to make its plantations in Indonesia gain RSPO certification. From the company’s perspective, buyers are also comforted to know that the CPO produced by Company Y is RSPO certified. They are also aware that the RSPO certification is not an easy process, as it involves stringent regulations. The interview with the marketing department of the company in the Jakarta office (Interview 14 June 2012), however, also pointed out the recent issue on premium CPO. The decreasing demand from the European buyers has led to declining price of premium CPO. For plantation companies that have attempted to get RSPO certification, this is certainly a big problem. Company Y also criticises the government and GAPKI (Indonesian Palm Oil Producer Associations) for their indecisive position on the role of RSPO. In this case, the company expressed the difficulties in getting more access to the European market despite its attempt to comply with sustainability practices through the RSPO certificates. The European counterparts, from the perspective of Company Y, continue to condemn palm oil cultivation practices in Indonesia, and in this case, they also collaborate with NGOs. The company also asserted that the problems are created by ‘using’ local people. This situation can be related to the common issues that occur on oil palm plantations in Indonesia, such as land conflicts or land grabbing. Apart from this, Company Y is also concerned with the ISPO certification processes. As previously discussed, the Indonesian government has made ISPO compulsory for oil palm plantations in Indonesia as of 2014 onwards. In this context, the concerns lie on the issue as to whether companies that have RSPO certificates still need to go through more or less similar process for ISPO certification.

39 The term used for RSPO-certified CPO.
**Case Study of Company Z**

Established as a trading company in 1991, Company Z has become a major player in the palm oil sector after it went through a fusion of large palm oil company groups that occurred in 2007. This merger has allowed the company to embrace other palm oil-related business, such as edible oil refining, oilseed crushing, edible oil merchandising, specialty fats, grains processing, oleochemicals, and biodiesel production, operating in twenty countries, primarily China, Indonesia, and Malaysia (Company Z, as cited in Hai 2013: 29). The merger also enables the company to significantly increase its land banks in Malaysia and Indonesia as well as to access some plots in Uganda and West Africa through a joint venture. Together with Company Y, the merger of Company Z marks a global expansion of the Malaysian palm oil industry both in upstream and downstream segments (Hai 2013: 29). The decision of Unilever to divest in the non-core business activities also gives further impetus for the expansion of the Malaysian palm oil companies in the downstream segment and access to a bigger European market (ibid.: 31). The merger also sheds light on the important role of the Singapore Exchange to which many plantation companies have turned towards as a way to raise capital (ibid.: 33). Company Z has initially made public offerings and listing on the Singapore Exchange Securities Trading, which thus resulted in the transfer of domicile of the company from Malaysia to Singapore. While thriving to advance in the downstream segment, Company Z continues to supply to global buyers such as Unilever, P&G, Reckitt Benckiser, and Mondelez. The company also supplies to VVF, an Indian-based transnational company, and the Savola Group, a leading Saudi Arabian-based multinational food company. The CPO sourced to these buyers may be coming from Company Z’s own plantations or from others mainly in Indonesia and Malaysia. This demonstrates how Company Z also serves as a large trading company with a significant control over the supply of CPO.

While merger and acquisition have allowed Company Z to secure and mobilise financial power, the company has also relied on credits from several large banks and creditors. International Finance Corporation (IFC), for example, has provided credits to the company since 2004.

I did not succeed in gaining access to the headquarters of Company Z in Indonesia. As such, all the information about the activities and operations of the company in Indonesia is gathered through literature analysis. In Indonesia, Company Z manages plantations, refineries, and some downstream operations such as producing biofuels and edible oils. As noted earlier, Company Z in

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40 Between 1994 and 2010, four major Malaysian-based companies acquired downstream assets in developed countries amounting to US$600 million as well as invested in refining activities in developing countries (Annuar 2012: 11, as cited in Hamilton-Hart 2014: 167).
Indonesia also acts as a local buyer for CPO. Together with Company Y, as well as other Malaysian-based companies, Company Z started to play a significant role in the Indonesian oil palm plantation sector when the sector was liberalised following the Asian financial crisis. These foreign private actors saw Indonesia as an opportunity, especially considering Malaysia’s limited land banks and rising labour costs. The company exported about one million tons of palm oil in the first half of 2007, with India and China being the main destinations (Greenpeace 2007: 44). Despite being an RSPO member, Company Z still buys CPO from non-RSPO members.

Seizing the opportunities provided by government initiatives to expand Indonesia’s biodiesel industry, in 2007, one of Company Z’s subsidiaries commissioned the establishment of a biodiesel plant in Dumai, Riau (Greenpeace 2007). This step was also driven by Company Z’s aim to boost its participation in the global biofuel complex (ibid.).

As commonly occurs when plantation companies intend to increase their land banks, Estate Z was acquired by Company Z. It was reported that between early 2006 and mid-2007, Company Z had increased its land concession five-fold, obtaining around 570,000 hectare (Greenpeace 2007: 53). In 2007, a report revealed that the subsidiaries of Company Z conducted land clearing without approved environmental impact assessments or other required licenses (Marti 2008: 35). In a 2011 field survey commissioned by the World Wild Fund (WWF), Company Z and another large plantation company group were accused of operating on Tesso Nilo National Park, Riau. Although Company Z is a member of the RSPO, Estate Z was not yet RSPO-certified. At the time of the field research, the estate planned to apply for RSPO certification.

The activities of Estate Z is under the supervision of the Sumatra regional office of Company Z, located in Pekanbaru, Riau. Every estate manager located on that island is responsible for reporting the performance of the estate to the regional office. The overall regional report is then brought to the head office of Company Z in Jakarta.

In an interview with the estate manager (19 April 2012), it was discovered that the estate had a dark past. However, the interview did not successfully reveal the details. A subsequent interview with an administrative staff of the estate showed that in the past the estate had a conflict with the indigenous people living nearby the estate (interview 20 April 2012). The indigenous people, whose source of economic livelihoods was ruined due to the presence of the plantation, held a demonstration in front of the estate’s office and asked for nasi bungkus. Estate Z has no partnership agreement with smallholders. The estate is however surrounded by a village consisting mainly of migrants coming from Java and

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41 Nasi bungkus is a take-away food that contains rice, meat, and vegetables wrapped in banana leaf or wrapping paper.
surrounding provinces such as West Sumatra, Aceh, and North Sumatra. The majority of them have oil palm plots on their house yards. Many of them also open home-based businesses such as small grocery shops, hair salons, and computer and language schools. Some also operate as middlemen or toke sawit. The village also has a local market and school. The mill operated by Company Z in this area also receives FFB from these local smallholders.

Local land conflict also occurred in 2008 in another subsidiary of Company Z still located in Riau. The estate was accused of engaging in the KKPA scheme but excluding the local indigenous people (Lestari Negeri 2008). This contributed to horizontal conflict between the local people and transmigrants participating in the KKPA. The estate was also confronted for not obtaining free, prior, and informed consent (FPIC, see discussions in the next section on the RSPO) from the local indigenous people in the conversion of the rubber plantations managed by these people to become oil palm plantation.

The case studies of companies Y and Z shed light on how liberalisation in the oil palm plantation sector has brought in two foreign players that have played a prominent role ever since. This shows a changing power constellation in the Indonesian oil palm plantation sector, which was spearheaded by domestic private companies prior to the Asian financial crisis. In the meantime, the case studies show a similar path of vertical integration that both companies undertook as a response to increasing competition. Vertical integration allows both companies to expand their land banks, thus securing the supply of CPO, as well as to access diverse CPO-related industries.

It is worth mentioning that, over time, strong influence on the global oil palm sector is coming from buyers, particularly food manufacturers, as the issues on sustainable practices of oil palm plantation are increasingly debated. For example, in 2010, Unilever decided to stop purchasing palm oil from Dutapalma Group given concerns on deforestation. This push of sustainable practices of oil palm plantations from buyers to oil palm producers indicates stronger influence from buyers in global palm oil plantations. In the perspective of Riisgard and Hammer (2011), this could show either the shift of industrial power from production to consumption spheres or the bipolar characteristic of value chain in which lead firms from different functional positions govern the chain. The issue of sustainable practices of oil palm plantation also raises important discussions on the role of The Roundtable on Sustainable of Palm Oil (RSPO) as private voluntary governance set up by private actors in order to address environmental and social issues in the sector.
5.5. Another Source of Institutional Arrangement: the Increasing Role of Private Voluntary Governance

The expansion of the palm oil sector has been criticised due to its environmental and social impacts. The RSPO was established to counter the claim on social and environmental damage of the oil palm plantation by promoting the image of the palm oil sector as a responsible business and by setting standards for the industry to avoid and mitigate the adverse impacts (Colchester et al. 2006: 32). The RSPO was established in 2004 as an outcome of the World Wide Fund for Nature’s Forest Conservation Initiative, conceived in 2001 (Hamilton-Hart 2014: 174). It opens the membership to palm oil growers, processors, traders, manufacturers, retailers, banks, investors, as well as environmental and social NGOs. It is estimated that these members account for around 40% of global palm oil production and consumption (Greenpeace 2007: 40). This number, together with the multi-stakeholders’ approach emphasised by the RSPO, conveys the image of the Roundtable as a powerful green club (Orsato et al. 2013: 454).

The organisation has an executive board, which is the most important management body in the RSPO (Pichler 2013: 373). It consists of 16 members appointed by the General Assembly for a period of two years. The structure of the board is as follows: four seats for oil palm growers (each seat for the representatives of Malaysia, Indonesia, smallholders, and ‘the rest of the world’); two seats for palm oil processors and/or traders; two for consumer goods manufacturers; two for retailers; two for banks or investors; two for environmental or nature conservation NGOs; and two for social or development NGOs. The board members have to meet at least twice a year and come to decisions based on consensus (ibid.).

While the association of Malaysian-based oil palm plantation companies (Malaysian Palm Oil Association) continues to play a main role in the RSPO, the association of Indonesia-based plantation companies (GAPKI) withdrew its membership in 2011 in order to back the ISPO. The resignation of GAPKI was seen as a major stroke for RSPO (Hospes 2014: 431). In the meantime, Unilever remains an important member of the RSPO Executive Board.

The main task of the RSPO is to develop sustainability standards. In so doing, the organisation has proposed 8 principles and 39 criteria. Companies are allowed to claim the CSPO (Certified Sustainable Palm Oil) label when an audited conformity is provided. The principles and criteria are actually binding for the RSPO members. However, palm oil companies are allowed to choose from their plantations, mills and supplier estates that are submitted for the assessment (Nesadurai 2013: 516). Despite the specific time period required by the RSPO for companies to complete the certification of their remaining operations, this deadline is solely determined by the companies (ibid.).
The existence of RSPO has been analysed as private voluntary governance in the global palm oil industry. This market-based governance attempts to regulate the oil palm GPNs with the absence of the government. Apart from the business actors, other actors such as some NGOs also perceive the RSPO as a new arena that might provide deliberative and more inclusive policy making (Pesquiera and Glasbergen 2012: 1). This shows how the oil palm GPN constitutes a contested terrain for the involved actors. Analysing the role of Oxfam in the RSPO, Pesquiera and Glasbergen (2012) propose three dimensions in which the international NGO has intervened. These dimensions consist of the creation of spaces of engagement, connecting spaces, and spaces of formal interdependencies. Space of engagement refers to the recognition of the relationship between different dimensions of the sustainability problem, which in turn allows NGOs to frame certain issues. Oxfam shows a successful example in this dimension by framing social issues such as poverty, land conflict, and problems facing smallholders as interconnected issues in the RSPO agenda. This positive story was also shaped by the recognition of the other main actors in RSPO (i.e., Unilever and the WWF) of the significance of broadening the issues considered in the RSPO to include social issues. The creation of connecting spaces is demonstrated when NGOs are able to encourage grassroots interests as well as to form alliances with less powerful groups. This is certainly not an easy task in the contested arena such as the RSPO. Acting as gatekeeper for the less powerful groups, such as smallholders and indigenous people, Oxfam is taking the risk of the withdrawal of the business actors from the RSPO, which in turn makes the RSPO lose its function as a multi-stakeholder approach. Additionally, spaces of formal interdependencies are created when the governance arrangement relies on the new network relationship as an important foundation. This implies the institutionalisation of mechanisms that protect the less powerful groups.

The three dimensions, mentioned above, also demonstrate the important foundations of consumer-based politics. Connecting spaces between production/producers and consumption/consumers is the ground of the establishment as well as the overall mechanism of the RSPO. Hence, the effectiveness of RSPO tools is generally judged by their ability to serve this purpose. Moreover, it is also argued that the RSPO should theoretically go beyond the multi-stakeholder approach, as it also emphasises the ‘round-tabling’ notion of private voluntary governance (Ponte 2014). While the former points to the sense that the group is able to ‘hear more voices’, the latter underlines the inclusiveness and equal standing of the involved actors.

As mentioned above, measures to protect the less powerful groups are addressed in the RSPO. For instance, there is the RSPO Grievance Process and Dispute Settlement Facility, which serves as a channel for local communities to address their interests and/or grievances. Moreover, according to the procedures during
the certification process, auditors must consult directly with the local communities and/or indigenous groups as to whether the land transfer or acquisition has taken place under the free, prior, and informed consent (FPIC) of these communities and/or groups (Nesadurai 2013: 518). In voicing their interests and/or grievances, these groups can also be represented by an NGO, irrespective of the NGO’s membership status in the RSPO. The RSPO standards also require public notification of planned expansions, which can alert the potential affected communities or NGOs (ibid.: 519).

All these measures addressed by the RSPO have, to a certain extent, shaped the positive moves of the oil palm companies. Some of these companies, including Company Z, changed their practices in compliance with the RSPO standards (Nesadurai 2013: 519).

Nonetheless, the RSPO has received criticism and sceptic impressions. One of the main criticisms towards RSPO concerns the certification process, which points to the acknowledgement of the organisation on audit visits that only cover a sample of the certification unit (Teoh 2013: 37, as cited in Hamilton-Hart 2014: 178). Apart from this, it is also difficult to establish traceability to the plantation level (Greenpeace 2007, as cited in Borras et al. 2010: 587). As explained above, many palm oil companies not only source from their own plantations and mills, but also from other plantations and mills. Furthermore, some contentions refer to the violation of commitment of the RSPO member firms (Milieudefensie 2007, 2008, as cited in Hamilton-Hart 2014: 178). A case in point is Dutapalma, an RSPO member company reported as contributing to peat degradation due to its expansion (Greenpeace 2007: 32,56). Some other RSPO members continued to receive RSPO certification despite the disputes with the local communities and the heavy criticisms from NGOs (Nesadurai 2013: 517). This is partly contributed by the fact that the certification process is usually not declined even if land disputes with the local communities are in place (ibid.). In addition, some criteria are still weak, given the lack of clear operational definition (Nikoloyuk et al. 2010: 66).

The certification among others involves audits processed and conducted by independent certification bodies on plantations and mills. However, the audit process may overlook some violations or may in general be biased (Nesadurai 2013: 518). The following section on the interview with Sucofindo, one of the independent certification bodies, further discusses this issue.

The most salient challenge to the RSPO is the weak market incentive of the CSPO. As mentioned in Chapter 2, the largest market for Indonesian CPO is India and other Asian countries where sustainable palm oil is not a prerequisite. The rising demand for biofuels in China, India, and Brazil has perhaps increased market access for Indonesia’s palm oil to the non-European market (Dauvergne and Neville 2009: 1097). Europe (in this case the Netherlands) is catching up as
one of the main destinations for palm oil, possibly due to the European Union’s Biofuel Directive.\textsuperscript{42} Nevertheless, this market remains relatively smaller compared to the markets provided by the Asian countries. As such, targeting the European buyers (e.g., Nestle, Unilever, etc.) might not change the overall demand of the CPO (Hamilton-Hart 2014: 178).

The RSPO is perceived as mainly driven by European actors and interests (Hospes 2014: 431). This is one of the reasons for the withdrawal of GAPKI from the RSPO membership. Meanwhile, the burden of the certification process and its costs are borne by the growers. Moreover, certain RSPO criteria, for instance about greenhouse gas emission, put additional burden for the producers (ibid.: 432). With the weak market incentive as mentioned above, this only leaves small rooms for the producers to gain profits.

Whether the RSPO would provide more market access is also further questioned considering the sustainable criteria of the European Union’s Biofuel policy. Moreover, the Renewable Fuel Standards of the United States does not recognise palm oil as a sustainable source of renewable fuel (Hamilton-Hart 2014: 175).

The RSPO principles and criteria have also not extended sufficiently to smallholders’ plantations. Not only is the certification process costly for smallholders, but some of RSPO’s best practices are difficult for them to implement. For instance, to avoid zero burning for land clearing, smallholders require sufficient upfront capital, which is often difficult for them to obtain (Sheil et al. 2009: 46). These challenges drive the RSPO to establish a smallholder task group (Mather 2008: 66). With a charter to address the specific needs and problems facing smallholders, the taskforce is led by Indonesian and international NGOs (i.e., Sawit Watch and Forest Peoples Programs). Nonetheless, despite the spaces provided in the RSPO to upscale their influence, such spaces have not been demanded through collective action and mobilisation from ‘below’ (Pesquiera and Glasbergen 2012: 7). The interview with SPI (\textit{Serikat Petani Indonesia}/ Indonesian Peasants Union) in Riau revealed how accessing to RSPO to voice their interests is difficult (interview with SPI, 21 June 2012). Access to RSPO gained by SPKS (\textit{Serikat Petani Kelapa Sawit}/ Oil Palm Farmers Union) is mainly attributed to the fact that Sawit Watch, the NGO that founded the SPKS, is a member of the RSPO.

\textsuperscript{42} In 2009, the EU passed a directive on the use of renewable energy that requires a minimum target of 10\% of biofuel blending by 2020. It is argued that the limited arable lands available in the EU for planting biofuel-producing crops in order to meet the target of the directive, such as rapeseed, gives rise to the increasing imports of CPO (Greenpeace 2007: 55).
Despite NGOs’ demands, the RSPO standards have only partially addressed labour issues, biofuels, and the use of the pesticide Paraquat\(^{43}\) (Pesquiera and Glasbergen 2012: 7). Women’s participation and the gender perspective on plantations are also yet not taken into account in the standards. All these criticisms of the RSPO come down to the conclusion that the approach is a ‘greenwashing’ strategy employed by firms to sustain their activities in the palm oil sector (Sheil et al. 2009: 46). The Roundtable generally justifies ‘...what is at root an unsustainable practice[s] of large-scale monoculture plantations’ (Nesadurai 2013: 507). By becoming members of the ‘green club’, companies attempt to manage their reputation in environmental and social issues (Orsato et al. 2014). Moreover, it is argued that the approach proposed by the RSPO methodologically undermines ‘...the way regime interests, state capacities, and plantation business agendas work together to shape outcomes’ (McCarthy et al. 2012: 556). Nikoloyuk et al. (2010) argue that the limits of the RSPO are attributed to unequal power distribution from the founding to the development phases of the Roundtable. Pichler (2013) also concludes that the structure of the RSPO privileges palm oil companies and downstream industries, while it marginalises smallholders, local and indigenous communities, and plantation workers. While recognising the benefit of such approach as limited learning tools, opponents of the RSPO encourage the effective engagement of the government (McCarthy 2012). The private voluntary governance is perceived as a part of the neoliberal agenda as it lacks state control. Additionally, the limit of the multi-stakeholder approach highlights the different and contesting interests of actors, and thus the need for internal accommodation and trade-offs (Nesadurai 2013). Ponte (2014) show how this web of a more complex governance system paves the way for competing initiatives that are less democratic, quicker, and serve more business interests, and thus limits the effective implementation of the ‘roundtable’ approach, which actually emphasises the inclusiveness and equal standing of the involved parties.

In light of the role of the RSPO as a source of regulatory setting among palm oil GPNs, it is also worth explaining the involvement of certification bodies with regard to the RSPO certification process. The RSPO believes that the certification should be carried out by an independent party. In Indonesia, there are several certification bodies (CB) accredited to conduct RSPO certification. One is Sucofindo International Certification Services (henceforth Sucofindo). According to an interview with Sucofindo (6 November 2013), the certification process consists of two steps of audit, a preliminary audit, followed by a certification audit. In the preliminary audit, the CB asks for all documents

\(^{43}\) Paraquat is considered as a dangerous pesticide. A little ingestion of the pesticide is fatal for animals and human beings. Without protective equipment, the spraying of Paraquat causes dangerous exposure. Other health risks are also posed during mixing and loading of the pesticide.
necessary for the certification, for instance, legal documents or documents related to environmental regulations. The purpose of this is to assess whether the applicant’s documentation fits into the requirements of the RSPO principles and criteria. The next step is the certification audit. At this stage, the CB auditors go directly to the applicant’s estate and mill. For instance, the auditors initially check the standard operational procedures (SOP) and how these are implemented. The auditors are also divided according to their expertise. Some, for example, are in charge of auditing the estate’s best practice, while others are responsible for assessing the occupational health and safety management system on the estate and mill. Lastly, the CB prepares reports stating their findings, which is sent to the applicant for their responses. The findings usually consist of information on conformance (or non-conformance) of minor and major criteria. Findings on non-conformance of major criteria have to be responded to. According to Sucofindo, feedback is welcome as long as it does not change the essence of the reports. In some cases, a follow-up audit is required, for example, if the estate has an ongoing land conflict with the local people, or if the estate is located in an area that violates the environmental regulation. The outcome of the whole audit is a recommendation submitted to the RSPO to grant the applicant as a certified oil palm producer. According to Sucofindo, the submissions are mainly responded to by the RSPO for additional verifications. Once granted, the certificate is valid for five years, with the requirement of an annual surveillance audit. Moreover, reports consisting of non-conformance of minor criteria are still recommended for RSPO certification, with the requirement that the annual surveillance audit shows conformance of these criteria. Sucofindo explains that CBs have the influence to suspend a company’s trade when the respective company is not willing to conduct the annual surveillance audit or does not respond to the CB’s findings.

On the estate or mill, auditors usually choose which block they want to assess. According to Sucofindo (interview with Sucofindo, 6 November 2013), sometimes companies divert the auditors to another block with an excuse that the activities the auditors would like to assess are taking place on the other block. Moreover, on the workers’ aspects (included in RSPO principle no. 6), the CB reveals that personnel from the company management are sometimes present when they interview the workers. For this reason, the CB auditors sometimes try to talk to the workers prior to the interview. Sometimes they also interview the workers whom they come across along the way. On some occasions they also have informal talks with workers on the estate outside the auditors’ working hours. In this way they are able to verify the findings from the assessment interviews. This also shows how the reliability of the findings completely relies on the willingness and efforts from the auditors’ side to make verification.
According to Sucofindo (6 November 2013), it is not uncommon for companies to bribe the CBs. The bribe does not have to be in the form of cash or money. The auditors can be offered certain leisure activities. In some cases, companies may treat the auditors as special guests or offered special amenities. According to Sucofindo, some CBs may be less strict. Going to this type of CB is seen by companies as another option, apart from trying to bribe the CBs. Sucofindo itself is perceived as a strict CB. One contributing factor is because RSPO certification is not the main business of Sucofindo. Hence, the CB is not worried when the client decides to go to another CB. The interview with Sucofindo also revealed that there are sometimes different interpretations and standards among the CBs regarding the assessment of the RSPO principles and criteria. What is assessed as a problem for one CB may not be seen as one for another. The RSPO has asked the CBs to send them the checklists to resolve this problem. ALSI (Asosiasi Lembaga Sertifikasi Indonesia/Indonesian Certifying Bodies Association) has also been made aware of this problem.

5.6. The Role of Civil Society Groups and Social Movements

The role of the RSPO as an important regulatory environment has shed some light on the salient influence of NGOs in the Indonesian oil palm plantation sector. Many international and national NGOs have played an active role around environmental and social issues in the Indonesian oil palm plantation sector. Some of them join the RSPO for this purpose, while others choose to remain being outsiders for maintaining their critical position. These outsider NGOs believe that this multi-stakeholder approach serves as part of the neoliberal paradigm, as it continues to promote agro-industrialisation and export-led development policies with the sustainability discourse (Hospes 2014: 426).

In addressing their interests, NGOs mobilise their resources and employ certain strategies considered effective to meet their objective. These essentially serve as their organisational capacity (Nesadurai 2013: 520).

NGOs have targeted varied actors in palm oil GPNs, such as buyers and financiers. Some of them actively campaign to boycott the products of these buyers, putting pressure on the image of these companies. As for targeting the financiers, an international environmental NGO criticised the decision of International Finance Cooperation (IFC) to provide credit to Company Z, as the former revealed evidences that contested whether the credit would have minimal adverse impacts on the environment (Hamilton-Hart 2014: 175). This protest, however, bore no outcome, as the IFC continued to provide credit to Company Z in 2006. Due to pressures from the NGOs, banks such as ABN AMRO and

44 The checklists consist of a list of ‘minimum questions to be asked by auditors while auditing compliance on specific indicator’ (RSPO website).
Rabobank have made statements that ‘oil palm plantation companies submitting investment proposals [to them] should not be involved in burning or clearing tropical rainforest; respect local communities’ rights and demands; respect Indonesia’s law and relevant conventions’ (Focus on Finance 2001; Simorangkir 2007, as cited in Sheil et al. 2009: 47). In their website, Rabobank, for instance, states clearly that one of the requirements for the company applicants is to comply with the RSPO principles and criteria. These campaigns also resulted in the suspension of the long-standing financial support of the World Bank Group to the oil palm industry between 2009 and 2011 (Nesadurai 2013: 509).

One of the national NGOs is Sawit Watch. The massive haze that occurred in 1999 set the backdrop of the NGO’s establishment. It started as an affiliate of WALHI (see discussions below on WALHI) and was concerned with environmental issues. The founding fathers were previously WALHI activists as well as from other environmental NGOs. The NGO then decided to focus on issues around palm oil, considering the sector’s lucrative future prospect in Indonesia. Sawit Watch takes environmental issues as a starting point in order to consider the related cultural and socio-economic aspects. In this regard, the NGO’s endeavour is to promote social justice for smallholders, indigenous people, and plantation workers. This in turn leads the attention of the NGO to issues around human rights and land rights. Cases handled by Sawit Watch have predominantly been centred on land conflicts and the rights of indigenous people in the oil palm plantation sector. The NGO also provides capacity building for smallholders, indigenous people, and plantation workers. Sawit Watch stated that it is not against the oil palm plantations per se, rather the current system implemented by the plantation sector (interview with Sawit Watch, 20 June 2012). The organisation also has both national and international networks for promoting the conservation and restoration of forests (Pesquiera and Glasbergen 2012: 4). In this case, for instance, Sawit Watch works intensively together with international NGOs, such as the Forest Peoples’ Programme. Sawit Watch also helped create the establishment of SPKS (Serikat Petani Kelapa Sawit), an independent Indonesian oil palm farmers union in 2006 (Ibid.). The NGO also provides funding to SPKS.

Sawit Watch is also a member of RSPO. For Sawit Watch, RSPO serves as an important arena for negotiations, aiming at improving the situations of indigenous people, smallholders, and plantation workers (interview with Sawit Watch, 20 June 2012). This way, for instance, enables SPKS to voice its interests when meeting with the RSPO (interview with SPKS Riau, 30 April 2012). In terms of preparing and implementing the RSPO standards, Sawit Watch facilitates meetings between local communities, indigenous people, smallholders, workers, and palm oil companies (Pesquiera and Glasbergen 2012: 4).
As mentioned above, SPKS was established by Sawit Watch in 2006. The union acts as a farmer group to advocate the interests of independent oil palm farmers. The Union deals with issues regarding oil palm cultivation and maintenance, FFB (fresh fruit bunches) selling and price, as well as land rights. For instance, SPKS thrives to omit the presence of middlemen and thereby oil palm farmers may receive higher FFB selling price interview with SPKS Riau, 30 April 2012).

One of the international NGOs that choose to be the outsiders of the RSPO is Friends of the Earth. The Organisation is sceptical whether the RSPO could regulate the oil palm GPNs (Mather 2008: 68–69). Friends of the Earth has an affiliation with Indonesia’s NGO, namely, WALHI (Wahana Lingkungan Hidup Indonesia: The Indonesian Forum for the Environment). Founded in 1980, WALHI is considered the largest umbrella NGO dealing with environmental and socio-economic issues in Indonesia. The NGO membership covers various elements of society, ranging from environmental to gender activists, uniting 450 NGOs in the country. WALHI was established when the forestry power was at its peak in Indonesia (Peluso et al. 2008: 215). As will be explained in the next section on discursive power, WALHI materialises the environmental justice movement in which grassroots movements and national or international environmental activists may find common ground. Particularly in the case of oil palm plantation sector, the NGO rejects the large-scale expansion of the sector and advocates the development of the downstream industry. Adopting a decentralisation approach on its operation, WALHI has regional offices spread throughout Indonesia. I conducted an interview with WALHI at the Riau office to consider the case study of the oil palm plantations in the region. Members of the Riau office consist mainly of legal aid institutions. It explains the NGO’s activities, which predominantly involve offering legal assistances to victims of the environmental or socio-economic conflicts on oil palm plantations in Riau. In this regard, WALHI asserts the unequal power structure between plantation companies and smallholders, particularly in the plasma or partnership scheme. Here WALHI Riau office collaborates with SPKS (Serikat Petani Kelapa Sawit/ Oil Palm Farmers Union) and SPI (Serikat Petani Indonesia/Indonesian Peasants Union). The NGO also assists indigenous people to protect their customary lands. Cases handled by the WALHI Riau office are gathered either through the NGO’s observation on issues reported by the local press, or through reports submitted by the local community. The NGO then conducts an investigation, which among others involves dialogues with the local community. Together with the community, the WALHI Riau office prepares and formulates their action. This may involve consecutive processes depending on whether or not their voices are heard and responded, for instance:

- submitting reports to police or respective authorities;
- holding protests or demonstrations;
• building a network or an alliance with other NGOs or social movement groups; and
• facilitating contacts between victims and the NGO’s international affiliates.

In doing its work, WALHI often has to face large plantation companies. As mentioned, Company Z and another large plantation company were alleged by the WALHI Riau office and several other environmental NGOs to have operated in Tesso Nilo National Park, Riau. This issue was also reported in a field survey commissioned by the WWF in 2011. According to the WALHI Riau office, two out of ten plantation companies operating in Riau are associated with conflicts on the plantations in the region (interview with WALHI Riau, 30 April 2012). These conflicts, among others, are linked to plantation licences acquired by these companies. On building networks or alliances, WALHI works closely with several NGOs. For instance, the NGO works together with Greenpeace in the campaign to save the habitat of Sumatran tigers. WALHI also joins forces with the WWF in protecting forest conservation areas at risk of being converted into oil palm plantation plots. With regard to the RSPO, as with its international affiliate Friends of the Earth, WALHI is not an RSPO member. While acknowledging the window of opportunities opened up by the RSPO, WALHI criticised the RSPO as being too soft on its members with regards to complying with the RSPO Principles and Criteria (interview with WALHI Riau, 30 April 2012). In this case, WALHI considers the RSPO as a legitimation for its members’ operations, and thus refers to the ‘greenwashing’ critique of the RSPO.

Another NGO actively working on the palm oil issues is Greenpeace Indonesia. Concerned with deforestation and endangered animals such as the Sumatran Tiger and Orang Utan, the internationally affiliated NGO puts pressure on firms and the state to employ sustainable practices in oil palm plantations. Greenpeace Indonesia not only targets producers, but also consumers of palm oil products. As the majority of the consumers are from the foreign markets, this shows the scale of interventions of this NGO, which reaches from national to international levels. In so doing, Greenpeace Indonesia has published reports mainly on the impact of the expansion of oil palm plantations on the environment. Some of the reports clearly mention the targeted palm oil companies, including their link with global buyers, thus tracking along the palm oil value chain. In 2007, Greenpeace published a report, Cooking the Climate, which claimed there was a link between carbon emissions and cleared peat lands in Indonesia (Orsato et al. 2014: 454). In 2008, the NGO published reports particularly targeting Unilever and its suppliers. In the same year, it also investigated the impact of the first RSPO certification on the operations of United Plantations. The reports targeting Unilever have triggered responses from the company to declare the same concerns (Ibid.: 455). Greenpeace Indonesia also actively engages in lobbying
and dialogues with respective government ministries. After all, the NGO’s advocacy in targeting producers and consumers of palm oil also aim at enacting national policies necessary for sustainable practices on oil palm plantations (interview with Greenpeace Indonesia, 22 June 2012). The two-year land moratorium declared by the Indonesian government in 2010 is partly seen by the NGO as a result of its advocacy and campaigns since 2005 (ibid.). Nonetheless, Greenpeace also considers that the moratorium is only the first step towards achieving sustainable palm oil development. The NGO is currently concerned with greenhouse gas emission issues for its advocacy and campaigns. Greenpeace Indonesia also urges law enforcement with regard to plantation areas that overlap with the forest conservation areas. In this case, the NGO demands the government to withdraw the granted licenses due to such violations (ibid.). Greenpeace Indonesia’s activities sometimes involve profound actions, such as sabotaging a ship that transported CPO in the port of Dumai, Riau. This led to the NGO being misunderstood as anti-palm oil or anti-development. In response to this view, Greenpeace Indonesia states that it is not against palm oil per se, and dismisses the perception that it is anti-development. Rather, it calls for sustainable palm oil development (ibid.). Greenpeace Indonesia also works closely with other NGOs on environmental issues. For instance, as mentioned earlier, Greenpeace Indonesia collaborated with WALHI on the campaign of protecting the endangered Sumatran Tiger, a species that has been adversely impacted through oil palm plantation expansion in Sumatra.

As a part of its advocacy operations, Greenpeace Indonesia often holds demonstrations and protests, contributing to what the government considered as a negative campaign against palm oil. In this context, many international NGOs are perceived as conveying the political agenda of foreign countries, such as EU’s protectionism. Massive protests by both national and international NGOs were seen as a measure of ‘foreign imperialism’. This situation serves as the backdrop of the enactment of Law No. 17/2013 on Non-governmental Organisations in 2013, perceived by the civil society as limiting the freedom of speech in the country. Meanwhile, suspicion on the activities of Greenpeace Indonesia continues. At the time prior to my interview with Greenpeace Indonesia, the office of the NGO in Jakarta faced attacks from a group of people claiming to be an alliance between university students and local community. As a result, security checks at the NGO’s office were tightened during the time of my interview. Concerning this event, Greenpeace Indonesia perceives that such group is organised by actors who are against sustainable practices of palm oil (interview with Greenpeace Indonesia, 22 June 2012). Furthermore, it also argues that news about NGOs, especially internationally affiliated NGOs, are politicised (ibid.). To counter the accusation of conveying foreign countries’ political agendas, it also states that its funding is solely derived from local people and not from foreign donors (ibid.).
Greenpeace has maintained its critical opposition towards the RSPO (Nikoloavuk et al. 2010: 68). The NGO is not a member of the RSPO. Greenpeace is concerned with the voluntary nature of the RSPO, and points out how some RSPO members do not comply with RSPO principles and criteria (interview with Greenpeace Indonesia, 22 June 2012). Indeed, many of Greenpeace Indonesia’s reports highlight the unsustainable practices of oil palm plantation companies that happen to be RSPO members.

Apart from the ‘environmental justice movement’, the ‘agrarian movement’ also features the social movement on the oil palm plantations in Indonesia. Both of these social movements are interconnected and to some extent also carry overlapping identities. SPI (Serikat Petani Indonesia/Indonesian Peasants Union) and KPA (Konsorsium Pembaruan Agraria/ Consortium for Agrarian Reform) work with the ‘agrarian reform’ discourse. The former has a strong base in Sumatra, while the latter operates mainly in Java. While some are of the opinion that SPI was established as a critique of KPA’s performance, KPA itself regards the foundation of its social movement counterpart as a result of different choice of strategy (Lucas and Warren 2003: 101-102). In this context, KPA focuses more on advocacy for policy reform, whereas SPI deals closely with increasing peasants’ organisations at the grassroots level. Nonetheless, both of the social movements view land conflicts on oil palm plantations as ‘agrarian conflicts’, and thus demand for ‘agrarian reform’ or ‘land reform’. For Peluso et al. (2008: 223), both social movement groups are similar, as neither are led by peasants but by activists. A student group-based social movement, STN (Serikat Tani Nasional: National Peasants Union), also takes agrarian reform as its main agenda. Established in 1993 by student activists, STN mainly target the plantations and forestry, focusing on the investments going into these sectors. In 2005, STN went through a consolidation with its affiliates in 10 provinces, and in 2006 held a congress declaring a national alliance with some farmer and fishermen unions, as well as with alliances of the agrarian economy movement (interview with STN, 26 November 2013). One of the land conflict cases in Riau, handled by STN, was against a subsidiary of Company Z. Apart from demanding land re-distribution, STN also attempts to propose a productive agrarian system once farmers claim their lands back (interview with STN, 26 November 2013). The social movement group lays out these measures as their short- and long-term strategies. Additionally, STN, through the course of the time has changed its approach; instead of a militant approach (such as sits-in or demonstration) it is gradually giving perspective to the government and companies.

As will be explained in the section on discursive power below, the 1965 rural massacre and the de-politicisation during the Suharto administration brought the agrarian movement down. Independent peasant organisations were substituted by HKTI (Himpunan Kerukunan Tani Indonesia/Indonesian Peasant’s Harmony
Association), managed by the military or other government officials, and affiliated to GOLKAR, the state’s ruling party (Peluso et al. 2008: 214). In the latter part of the Suharto administration, alliances with environmental groups provided a leeway for agrarian activists to make their claim. The Reformasi era and decentralisation policies gave an impetus for the revival of the agrarian movement. Afterwards, the agrarian movement resurfaced into two types of movement as a result of important historical and geographic differences (Peluso et al: 209). In Java, Bali, and some parts of Sumatra, where rural class tensions had taken place, the agrarian activists separated their agenda from the environmental agendas. They focused on land reform and demanded that the state implement the Basic Agrarian Law comprehensively. Meanwhile, in Sumatra, Sulawesi, and Kalimantan, the agrarian movement began to overlap its identity with the environmental justice movement, which was attributed to the alliance between environmental justice activists and local groups consisting of people identifying themselves as indigenous people. The resurgence of the agrarian movement was afterwards contested with a new state-led agrarian reform put forward by the National Land Agency (NLA), the Ministry of Forestry, and Indonesia’s president. All this demonstrates how the nature and alliances of contemporary agrarian movement are shaped by historical tensions, the current political regime of state power, and state-capital relations (ibid.: 211).

An interview with SPI in Riau revealed that it attempted to take back the lands grabbed from the farmers (interview with SPI, 21 June 2012). A case handled by SPI took place in Lubuk Sakat, an area that previously consisted of unproductive lands. The land grabbing case, according to SPI, was attributed to the presence of a fictitious cooperative that claimed the lands without discussing with the local farmers. In this regard, SPI acts as a representative of the farmers in negotiating with plantation companies, which also involves the Siak Hulu police unit. The negotiation typically stalls, as farmers are not willing to be compensated with money and demand to get their land back. SPI stated that farmers join SPI or SPKS (Serikat Petani Kelapa Sawit: Oil Palm Farmers Union) when cooperatives do not function well. The interview also revealed that plantation companies involve the local police unit to protect them, even though by law the local police are not involved.

Several evidences have pointed out the collective power mobilised by NGOs. A study shows how NGO mobilisation in West Kalimantan resulted in the slower growth of oil palm plantation expansion in the area (Potter 2011, as cited in Hamilton-Hart 2014: 174). Critical campaigns by the NGOs also contributed to several moves of buyers. Unilever, for instance, blacklisted two large Indonesian members of the RSPO in 2009–10 (McCarthy et al. 2012a: 555). Nestle also followed suit by withdrawing from a large Indonesian supplier (ibid.).
The above discussions also highlight the alliances and networks between national and international NGOs. It is argued that the interconnected levels of activism represent an emergent type of ‘environmental justice’ movement (Escobar 1998; as cited in Gerber 2011: 172). These alliances and networks also allow international NGOs to obtain national expertise and networks important for the former’s international advocacy (Pesquiera and Glasbergen 2012: 4). Meanwhile, the alliances and networks with international NGOs allow national NGOs to better position themselves vis-à-vis other more powerful actors (ibid.). In this regard, the RSPO mediates the national NGOs to upscale their interventions.

This section covers a few examples of local- or national-level social movement groups and non-governmental organisations (NGOs) working on palm oil issues. Following the tremendous attention on the oil palm plantation sector in Indonesia, there are indeed many such groups, both national and international, often working together for their advocacies and campaigns. At the local and national level, land and resource conflicts have prompted the establishment of a significant number of new activist organisations (Lucas and Warren 2003: 103). While Indonesian NGOs may represent the retreat from radicalism, they also often proceed with a new radical offensive (La Botz 2001: 130)45. It is important to bear in mind that the civil society groups and social movements around oil palm issues cannot be seen as a monolithic group, given ‘the competing social class perspectives and/or ideological and political standpoints…’ (Borras et al. 2010: 584). The NGOs’ position is also, to a certain extent, ambivalent46 (Lucas and Warren: 103-104). As NGOs are still dependent on their financial donors, their activities are dictated by the terms compatible with human rights, governance, and sustainability standards set by these donors.

Gregorio (2012) proposes that these organisations can be classified into four groups based on their ideological subscriptions, which in turn shape their views and claims on social and environmental problems on oil palm plantations. The

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45 The history of civil society organisations in Indonesia can be traced back to during Suharto’s era. The organisations were initially established not as opposing actors, but rather as expressions of ‘ideology of modernization’ (Aspinall 2005: 89). As such, they were to a certain extent tolerated during that era as long as they did not pose fundamental threats to the political regime. Since Suharto’s government prohibited left-leaning organisations, civil society organisations served as a repository for radical alternatives (La Botz 2001: 130).

46 Aspinall (2005: 90) also concludes the ambivalent positions of NGOs in Indonesia considering their origins. As mentioned, Indonesian NGOs were initially expressions of ‘ideology of modernisation’ in their impetus. The NGOs were later driven by critically minded intellectuals. However, in the 1980s the NGO leaders swayed to partnering with the government given the government’s growing hostility to independent organisations. All in all, as Aspinall (2005: 114) argues, ‘NGOs sought to influence, contest, and limit state action at every turn, interacting with, rather than overthrowing, the state’.
first group is the conservationist group, which mainly focuses on biodiversity and ecosystem conservation. Organisations such as the World Wildlife Fund (WWF) or Greenpeace belong to this group. The second group connects environmental issues with human rights and social justice, putting forward the ‘environmental justice’ discourse. Sawit Watch and WALHI, along with the majority of the social movement groups and NGOs, fall into this category. The third group is the anti-globalisation social movement organisations. Social movement groups in this category view global capitalism as an exploitative system inherently responsible for environmental damage. This group can be further classified into anti-globalisation green and anti-globalisation agrarian social movement organisations. The former connects environmental justice and local access to natural resources, while the latter settles in the intersection between environmental justice and agrarian rights. Examples of the anti-globalisation green are SKEPHI (Sekretariat Kerja Sama Pelestarian Hutan Indonesia: The Secretariat for Forest Conservation in Indonesia) and KONPHALINDO (Konsorsium Nasional untuk Pelestarian Hutan dan Alam Indonesia: National Consortium for Forest and Nature Conservation in Indonesia). According to Gregorio (2012), FSPI falls into the anti-globalisation agrarian social movement group, while KPA belongs to the environmental justice social movement group, despite the latter’s focus on agrarian reform. Nonetheless, these different groups of social movement organisations and NGOs build alliances and networks through the environmental justice social movement group as the intersection. That implies that, despite the different platforms, the “environmental justice” discourse has been able to pull together social movement groups and NGOs working on palm oil issues, providing a common ground to build alliances and networks. The environmental justice discourse underpins the discourse coalitions of social movement organisations in this issue, confirming the argument mentioned in the paragraph above.

5.7. Structural Power in the Indonesian Oil Palm GPN

Hamilton-Hart (2014) argues that the oil palm industry constitutes a highly unequal wealth and power distribution with competing interests at local, regional, national, and global levels. The facilitative regulatory environment demonstrates how the powerful interests and coalitions, mainly from the business actors, have played a major influence. The above case study of the Indonesian oil palm GPNs confirms this argument. Such structure affects how actors in Indonesian oil palm GPN may access and mobilise resources. As argued, the unequal wealth and power distribution has shaped how gains from the development of Indonesian oil palm plantations are unevenly distributed (Obidzinski et al. 2012). In this case, the previous section discusses the winners and losers in the Indonesian oil palm plantations development. The coalitions, particularly between business actors and the government, indicate how the state
is not a neutral arbitrator, but rather functions in the interests of national and transnational capitals (Pichler 2013: 376).

The descriptions on institutional arrangement as well as the case study show how government policies shape inter-firm relationships within the oil palm value chain. Such policies obviously affect the strategic initiatives of oil palm plantation companies and thus the constellation of actors within the oil palm production system. The constraints facing independent smallholders, such as dependence on palm oil mills, are often seen as consequences of weak intervention of the government. Initially playing a leading role in developing the oil palm plantations, the government seems to play a diminishing role in the sector, demonstrating the policy shift from state developmentalism to neoliberal globalism (Gellert 2005). This shift implies a construction of new scale (McCarthy and Prudham 2004: 279; as cited in Gellert 2005: 1347). Furthermore, despite this shift in policy the development model applied in the sector continues to rely on ‘…exploitation and degradation of forest-based resources and displacements of social groups near these sources of growth and accumulation’ (Gellert 2005: 1347).

McCarthy et al. (2012a) propose understanding the structure of the Indonesian oil palm GPNs by focusing on the interactions between regime interests, state capacities, and plantation business agendas. In their argument, if the state could obtain autonomous financial resources in order to sustain a regime, it would less likely be responsive towards its citizens. Hence, in this kind of regime setting, state control over commodity export surpluses is the key agenda rather than, for instance, rural poverty alleviation. This agenda has underpinned the patrimonial links between the government and palm oil companies. While palm oil companies vie for land permits, local government agencies may use the links with these companies to raise financial supports. The decentralisation policy has not only transferred a significant portion of authority from the central to the local government, but also has been followed by direct election of the local government heads (e.g., governor, city mayor, bupati, or regent head). While the advantages of direct election are known, the downside of it has in many cases involved money politics, particularly in order to raise votes. Here, patrimonial links allow candidates running for these government positions to obtain financial supports. Moreover, decentralisation policy also implies the local government to mobilise the local resources so as to sustain the local economy. This gives rise to local competition to attract investments. This also implies a substantial shift to localised negotiations between actors. This new terrain posits a challenge for Indonesian oil palm plantation sector, as international pressures for complying with social and environmental standards at the local level are weak (McCarthy et al. 2012a: 564).

The palm oil boom has to be seen as part of an agro-industrialisation narrative actively proposed since the 1960s. The establishment of industrial plantations in
the developing countries in the 1960s was started in the context of the ‘green revolution’ (Gerber 2011: 166; Brad et al. 2015: 104). Joining this agro-industrialisation narrative is the recent policies regarding biofuels, creating a global biofuel complex (Greenpeace 2007; Dauvergne and Neville 2009). For McMichael (2009), the agro-fuel project reflects a recent attempt by the capital to convert natural resources into value relations, as well as an attempt to legitimise the state–capital nexus. Borras et al. (2010) argue that agro-industrialisation has altogether been linked to the state, capital, and the society, particularly with a blurring relation between public, private, local, national, and global actors (2010: 581). Assessing this relation in the case study of the Indonesian oil palm sector, the regulatory settings indicate that there are strong incentives for the state to serve the interests of the multinational capital.

One of these regulatory settings pertains to the agrarian regulatory environment. According to Hall (2011), the land control strategies in oil palm plantation sector in Indonesia are diverse along the powers of regulation, market, force, and legitimation in which people, groups, and institutions exclude one another. As described in the previous sections, the state employs land control interconnecting strategies of regulation, force, and legitimation. Oil palm plantation expansion as a part of national development is used by the government as legitimation to exercise control on land. According to McCarthy and Cramb (2009), the government policy narratives tend to perceive the ‘frontier’ land as lacking productivity, modernised agriculture, and a disciplined labour force. In so doing, the government has been able to obtain a reserve of ‘state’ or ‘idle’ customary land. Nucleus estate schemes or contract farming are also perceived as a measure by the government to gain state land recognition (Hall 2011: 847). It is indeed argued that such schemes serve as ‘virtual land acquisitions’47 (McCarthy et al. 2012b). These strategies might be accompanied by force. As mentioned, during the Suharto administration, military forces were involved in the plantation expansion process. It is inevitable that palm oil companies benefited from these strategies, mainly through obtaining access to lands, and protection or security.

Meanwhile, the agrarian capitalism underpinned by large-scale plantations and smallholder contract farming resembles similar characters with those on plantations during the colonial era (ibid.: 588). The emerging biofuel complex sustains this structure, intensifying pressures on the environment as well as escalating control of resources from subsistence farmers, indigenous people, and

47 McCarthy et al. (2012b: 523) argue that virtual land acquisitions should be distinguished from the real ones. The former refer to the initial stages of land acquisitions sufficient to allow certain actors to pursue their own interests, which do not always imply land use changes. According to the authors, this is indicated by the mere declaration of land acquisitions of these actors. This already provides profits to the actors in the context of global discourses of food, climate, and energy crises.
local community with insecure land and rights, despite the so-called ‘sustainable’ biofuel development (Dauvergne and Neville 2010).

While the role of the government seems to be diminishing yet remains important, other agents play an increasing role in shaping the configuration of the oil palm value chain. Environmental, and to some extent social issues, channel the pressures from other agents, notably NGOs. Recognising these pressures, buyers are forced to ensure that their supply of CPO is sustainable. Such pressures are then diverted to producers. In fact, the establishment of the RSPO reflects the reaction towards the negative campaigns of palm oil. As mentioned, this situation demonstrates a tendency towards bipolar characteristics in the oil palm production system, which implies a substantial role being played by NGOs. Social issues, particularly land grabbing, are also addressed by NGOs. Some NGOs also cooperate with social movements to raise public and buyer awareness on adverse social effects of the expansion of oil palm plantations. This implies that people, particularly community and workers, involved in oil palm production network are active agents who attempt to reverse detrimental effects resulting from the engagement in the oil palm production network, rather than being passive exploited agents.

Nonetheless, as explained in the previous section, the RSPO has limits and challenges in its influence in the palm oil GPN. According to Pichler, the role of the RSPO should be perceived in the context of ‘consumer-oriented hegemony’ (2013: 377). This implies how the RSPO is understood as a part of stabilisation hegemony that ensures consent from environmental and societal groups. Thus, apart from the participation of various groups from the business sector, it is also important to secure the integration of the concerned NGOs in the RSPO. Another key issue here is the selective incorporation of the interests and strategies of smallholders, local and indigenous communities, as well as plantation workers.

5.8. Discursive Power in the Indonesian Palm Oil GPN

Actors in the palm oil GPN deal with various discourses that facilitate and limit their attempt to influence the landscape of the oil palm GPN. Their efforts to employ this discursive power intend to increase other types of power, such as structural or collective power, possessed or exercised by these actors.

As discussed above, the palm oil development in Indonesia is based on the agro-industrialisation narrative. This narrative has been used as a discourse to maintain structural power in the palm oil GPNs, which favours palm oil firms. This has taken place at different scales. At the global level, such narrative justifies the funds moving from the Northern countries (e.g. the World Bank) to the Southern countries in the 1960s. At the national level, the narrative painted a national development discourse vis-à-vis indigenous agriculturalists perspective
(McCarthy and Cramb 2009). The former is seen as modernised and productive agriculture with disciplined workforce, whereas the latter is perceived as less productive agriculture. Moreover, the nucleus estate scheme or contract farming is proposed to resolve the ‘dualistic economy’, which is a legacy of plantation development during the colonial period (ibid.: 115). Here ‘dualistic economy’ refers to strong and modern plantations on the one hand, and weak economy with traditional and backward smallholders on the other. The national development narrative is supported by food security discourses around palm oil development. This is considering that palm oil serves as an important input for producing cooking oil, as well as the fact that cooking oil is an important food staple in Indonesia. As mentioned, adverse consequences of oil palm plantation development are indicated by the difficulties for smallholders to maintain partial subsistence farming as well as by the loss of land control facing the smallholders, all of which reflects decreasing food sovereignty. Hence, Indonesian oil palm plantation development also shows how food security discourses are played out for justifying the development initiative, despite the negative impact on food sovereignty.

The critics towards oil palm plantations in Indonesia as casting adverse effects on the environment and social livelihoods underpin the discourses on sustainable practises on oil palm plantations. The active campaigns by environmental and social NGOs in Europe have shaped the notoriety of the Indonesian oil palm plantation sector. This gives rise to the sustainable palm oil discourse mainly advocated by the Roundtable on Sustainable Palm Oil. The RSPO is perceived to have been successful in putting forward sustainable principles and criteria embedded within the paradigm of sustainable development and corporate social and environmental responsibility (Pye 2009: 94). As discussed in the previous section on RSPO, the discourse on sustainable palm oil has created room to leverage collective power for marginalised actors, including local community, indigenous people, farmers, and labourers.

In the meantime, it is argued that the ongoing discourse on sustainable palm oil has been used by European companies as a protectionist measure to deter the market access of CPO to the European market (interview with GAPKI, 22 June 2012; interview with DMSI, 19 November 2013). First of all, sustainability is not specifically defined in the RSPO Principles and Criteria (P & C). Moreover, the certification process also involves some European certification bodies, to which the substantial fee of the certification process is going. Furthermore, the EU currently serves as the world’s leading producer of biodiesel, accounting for 80% of the world’s biodiesel production and consumption (Dauvergne and Neville 2009: 1096). With the expansion of its oil palm plantations, Indonesia could assume this position, making it the EU’s main competitor. After the outbreak of the food crisis in 2007, it is contended that some EU countries that would have to import biofuel in order to meet the EU’s Biofuel Directive tend to
frame their opposition through the lens of food security issues (ibid.: 1091). In order to counter the negative campaign against Indonesian palm oil, the government, for example, actively promotes the ‘green image’ of Indonesian palm oil by introducing the Indonesian Sustainable Palm Oil (ISPO) to the world audience. DMSI (Dewan Minyak Sawit Indonesia/Indonesian Palm Oil Board) spends a great amount of funding on research and consultancy regarding the sustainability issues of the Indonesian palm oil sector (interview with DMSI, 19 November 2013). Both these examples certainly require a vast amount of resources.

As mentioned briefly in the previous section, social movement groups and NGOs operate with two key discourses in order to obtain their space of intervention. In this regard, discursive power is also exercised in order to increase the collective power of these GPN actors. The ‘environmental justice’ discourse has brought together various social movement groups and NGOs concerned with environmental and socioeconomic issues. Essentially, the existence of the agrarian movement in Indonesia dates back to 1945 when BTI (Barisan Tani Indonesia: Indonesian Peasants’ Front) was established. The organisation was affiliated with PKI (Partai Komunis Indonesia: Indonesia’s Communist Party). In 1965, the then-General Suharto led the military coup that involved a massacre that destroyed left-leaning parties, associations, and organisations, including PKI, BTI, and their affiliates. When Suharto entered into office afterwards, such left-leaning associations, organisations, and ideologies were banned. As a result, the agrarian and rural social movements dissolved during the Suharto administration. This period saw a de-politicisation of civil society, in which any political opposition to the state was unacceptable. Until the late 1980s, the New Order government had been successful in exercising such control.

By the late 1980s, the transnational environmental advocacy has gained important currency in the national discourses (Peluso et al. 2008: 214). The works of these international conservation activists have been concerned with the adverse environmental impacts resulting from the rapid development of large-scale extractive industries and modernisation policies during the New Order regime (ibid.: 215). Facing such international pressures, the New Order government engaged in collaborative works with these international conservation activists and even set up the Ministry of Environment, in addition to the Ministry of Forestry. Meanwhile, the vast development of the large-scale extractive industries altered the distribution of agrarian resources, and in turn served as contributing factor for the engagement of grassroots environmentalist in agrarian struggles (ibid.: 214). As agrarian reform agenda was seen as a political agenda during the de-politicisation period, agrarian activists allied themselves with grassroots environmentalists, and thus framed their interests within the environmental debates. The engagement of the government in
environmental issues and the collaboration with international conservation activists was perceived by grassroots environmentalists as an opportunity to voice their interests. Environmental advocacy served as a safe arena for this social movement to advance their agenda. WALHI (Wahana Lingkungan Hidup/The Indonesian Forum for the Environment) provides a case in point on how the environmental justice discourse is used to bring together grassroots movements and international or national environmental activists. The NGO also survived the New Order regime, partly due to the support from within the government, particularly the Ministry of Forestry. Although many of the big international conservationists did not subscribe to the social justice agenda, and even often agreed with government forestry agency in blaming deforestation on shifting cultivators and forest-dependent local people, they were able to make the government aware of the environmental problems, and they were also helpful in establishing formal-legal ways to handle such problems while the environmental justice movement advocates were working on the ground (ibid.: 215). These conjunctures lay out the genesis for the environmental justice movement in the 1980s. All these also show how environmental discourse is used by and shapes the alliance of the conservation, the agrarian, and the environmental justice activists.

In Java, Bali, and some parts of Sumatra, there is more of a sense of rural class among the local people (Peluso et al. 2008: 219). In this area, agrarian activists framed their aspirations within environmental discourses during the New Order regime. After the fall of Suharto, followed by the Reformasi era, agrarian advocates separated their agenda from that of the environmental justice movement. Meanwhile, environmental justice discourse remains to be the key discourse for the grassroots social movement in Sumatra, Sulawesi, and Kalimantan. Unlike in Java and Bali, there is less of a sense of rural class among the local people in this area. Here, the local people identify themselves as masyarakat adat or indigenous people, and thus use the indigeneity discourse. These people claim that their social and economic livelihoods depend on the forests and/or customary lands, which have been converted into oil palm plantations. As such, this masyarakat adat type of organisation features the agrarian movement in this area. Rather than a natural outcome of certain association between communities and land, place, or tradition, Afiff and Lowe (2007) argue that the indigeneity discourse is a response towards the limited room for political representation for these people during the New Order regime. In this area, environmental justice activists work together with these groups of indigenous people. This social movement organisation of indigenous people also perceives themselves as an agrarian movement (ibid.: 217). All these explain the overlapping identities between environmental justice movement and agrarian movement in Sumatra, Sulawesi, and Kalimantan.
The resurgence of the agrarian movement focusing on agrarian reform discourse is further strengthened by the food sovereignty discourse advocated by Via Campesina. The food sovereignty discourse urges ‘…regaining control over a part of societal product and over the associated authority to organize production’ (Claeys 2012: 849). The crux of the campaign concurs with the spirit of the agrarian reform. Moreover, Via Campesina, through its member affiliate in Indonesia, the FSPI (Federasi Serikat Petani Indonesia/ the Federation of Indonesian Peasant Union), set up a global shop in the country in 2004, making Indonesia an important host for its global activities and campaigns.

Summary:
This chapter discusses the power relations in the oil palm plantation GPNs. The discussions start with the role of the state through the institutional arrangements shaping the inter-firm relationships in oil palm GPNs. The analyses show how the sector experience the changing role of the state from being the primary driver of the development of the sector to the regulatory body. Nonetheless, as will be explained in Chapter 7 on the section of political regime, the role of the state remains important, as the fall of the authoritarian regime and the country’s embarkation towards market liberalisation lead to a reconstruction of power constellation between the state and capital actors. More importantly, this underlines how the state is a relation of social forces and how its action and inaction reflect the contradictions inherently embodying it.

In the oil palm GPNs, private plantation companies become more vertically integrated in downstream and upstream segments. In the upstream segment, smallholders and independent palm oil mills become more dependent on large private plantation companies. In the downstream segment, the large private plantation companies have entered various industries, while large companies in food, household products, cosmetics, and oleo-chemical industries remain key leaders. The liberalisation measures taken by Indonesia have brought in or intensified the role of foreign companies the oil palm plantation sectors. Trade liberalisation has increased the competitiveness of palm oil in the world oil market. Given the diversity of industries consuming palm oil, as well as its competitive production costs, palm oil has become an important commodity in the oil world market, to the point that the Indonesian government has to employ export duties in order to stabilise domestic consumption as well as to encourage the country’s downstream operations.

The oil palm plantation sector also has seen the increasingly important role of private regulatory governance and civil society organisations. Issues around environmental degradations and land conflicts have led to the increasing importance of private regulatory governance as well as the close engagement of civil society organisations in the Indonesian oil palm GPN.
Analyses on discursive power show how both state and business actors work with certain discourses in order to justify their authority or even to increase their influence. This not only applies to state-capital relations, but also to inter-firm relations, both of which eventually affect labour relations in the sectors. The interplay of material and discursive power possessed or exercised by these actors is evident in the discussions of structural power in oil palm GPNs.
Chapter 6

How the State and Firms in Indonesian Automobile Sector Mobilise Power

This chapter analyses power relations in Indonesian automobile GPNs. Applying the relational view of power embraced by the GPN approach as discussed in Chapter 3, this chapter seeks to understand how actors in the automobile GPNs, particularly automobile firms and the state, mobilise their power. As in the previous chapter on palm oil, we start by analysing the power relations in the automobile sector by looking at socio-spatial contexts, particularly the institutional arrangements that inevitably shape the inter-firm relationship in the automobile sector. This opens the discussion on the state’s institutional power in the sector. A relational view of power means that we trace the connection between the institutional arrangement, state’s power, inter-firms relationship and the mobilisation of power by firms in the automobile sector. This is particularly discussed in the section on corporate power informed by conceptualisations as discussed in Chapter 3.

6.1. Institutional Arrangements and the Role of the State

In the initial development of the automobile sector, the government implemented various programmes reflecting import substitution policy, such as the import ban of completely built-up (CBU) cars in 1971, which allowed only the import of completely knocked down (CKD) cars (Aswicahyono et al. 1999: 6; Nag et al. 2007: 25; Tang 1988: 30). Apart from banning CBU cars, the government also imposed several regulations that required the utilisation of local contents. In 1976, the government issued a deletion programme, which required car manufacturers to utilise locally manufactured components in their assembling operations (Doner et al. 2006: 58). The programme was halted and reviewed in 1977, but was reinstated in the subsequent year (Hale 2001: 630). Similar regulations on local content requirements were passed during the next decade. In 1985, a regulation was issued by the Ministry of Industry (Decree No. 117), which modified the previous regulation on local content requirements (ibid.). The regulation basically contained a relaxed stipulation on local content requirements. The consequences of these regulations are obvious. Foreign auto companies shifted their strategies, investing in the local auto component industry. An example of this is the establishment of Suzuki Engine and Colt Engine Manufacturing in 1984, as well as of Toyota Engine Indonesia in 1985 (ibid.). While these new investments were appreciated for providing job
opportunities, they were also criticised for creating excess in capacity and unit production costs. Also in the mid-1980s, assemblers were forced to limit in-house production of parts and to subcontract such activities to small and medium enterprises (SMEs; Doner et al., 58).

In the late 1960s, the government passed a regulation that required foreign automakers to appoint sole agents; this marked the beginning of the salient role of sole agents in the Indonesian automobile sector. Thereafter, foreign automakers were not allowed to operate in assembling and distributing activities directly. Sole agents as importers had a monopoly of imports of certain automobile brands. In 1969, the Ministry of Trade enacted a decree that stipulated that a sole agent of a principal should be controlled by Indonesian citizens (Tang 1988: 31). This shows how in the first stage of import substitution policy the ownership of assembly firms and sole agents was reserved only for domestic investment and licensing agreements (Tarmidi 2003: 98). In 1979, the Ministry of Industry passed a regulation (Decree No. 167) to rationalise the automobile sector (ibid.). The regulation provided stipulations that no new license of sole agent would be issued and that sole agents cannot be transferred to another company (ibid.). Firms interested in entering the automobile sector, particularly in assembling and distributing activities, were encouraged to form a joint venture cooperation (Nag et al. 2007: 25). This policy paved the way for the penetration of Japanese car companies into the Indonesian market through joint venture.

The government also implemented import controls as a part of its import substitution policies. The increasing number of goods subject to quantitative restrictions and licensing requirements illustrated these import controls (Tang 1988: 31). To exemplify, PT Krakatau Steel, a state-owned steel company was entitled to import a monopoly of various steel products. Another state enterprise held import monopoly of plastic, whereas an Indonesian firm was given import monopoly of tin plate. Furthermore, five component companies were given exclusive rights to produce and distribute certain auto components. This policy created a skyrocketing price of raw materials in Indonesia (England 1986, as cited in Tang 1988). Apart from protecting the domestic automobile sector, the purpose of the government in implementing import monopolies was to encourage the automobile sector to achieve economies of scale (ibid.). Opponents of this policy, however, criticised it only contributed to cost inefficiencies as well as unnecessary production delay (ibid.).

In the mid-1990s, the sector was more market oriented, although it remained heavily regulated (Aswicahyono 2000: 215). In 1993, the government passed a regulation that offered incentives for automobile companies which used domestic components, replacing the ban on imported vehicles as well as the deletion programme (Nag et al. 2007: 25; Setiono 2002; Doner et al. 2006: 60). The incentives were lower import duties for higher domestic components.
utilities. In this regard, components were considered local and, therefore, received incentives if they were domestically manufactured and had at least 40% locally made sub-components for passenger cars and 20% for commercial vehicles (Hale 2001: 630–31).

In 1995, the government passed a deregulation package in which the government offered zero tariff to imported components for commercial vehicles maintaining a proportion of at least 40% local content and at least 60% for passenger vehicles (Pasha and Setiati 2011). The package decreased the ceiling on tariffs from 175% to 125% for CBU, from 100% to 75% to CKDs, and from 40% to 25% to car components (Hale 2001: 631). During the same year, the government also liberalised foreign investment and lowered import duties as a part of the country’s commitment to AFTA and APEC (Nag et al. 2007: 25). Investment liberalisation was particularly stipulated in the Government Regulation No. 20/1994 and Presidential Decree No. 31/1995, which allowed foreign investors to own 100% shares of a company (Setiono 2002). Nonetheless, under AFTA, the automobile sector at that time remained in the temporary exclusion list (Doner et al. 2006: 60).

When the Asian financial crisis hit Indonesia in 1997, the country asked the IMF for assistance. As a commitment to this assistance, the country followed structural adjustment programmes, which directly affected the automotive industry. As a result, the government introduced new automotive policy in 1999, aimed at developing an efficient and globally competitive automotive industry (Puraka et al. 2008: 32). This new policy also marked the beginning of the liberalisation of the Indonesian automobile sector. The incentive programme was abandoned, and tariffs were pushed down to more than half on average (Nag et al. 2007: 26). Imports of some raw and supporting materials were exempted from tariffs and value-added tax (VAT; Setiono 2002). As stipulated in Ministry of Industry and Trade Decree No.279/1999, imports of CBU cars were allowed, superseding the previous regulation that only allowed imports conducted by registered importers or sole agents (Setiono 2002). Procedures and qualifications for imports were also simplified, whereas the government encouraged exports to expand markets of automobile products (Pasha and Setiati 2011).

In 2002, the government also took a significant approach by liberalising the domestic market through ASEAN Free Trade Agreement (AFTA), which clearly had a substantial impact on the auto sector. AFTA could be used by Japanese auto manufacturers to promote their strategies for the markets in Southeast Asian countries, particularly Thailand, Malaysia, and Indonesia. In 2007, the government signed the Indonesian-Japan Economic Partnership Agreement (IJEPA), which affected Indonesian automobile sector, considering the domination of Japanese car manufacturers in the sector. In 2010, Indonesia entered into the ASEAN-China Free Trade Agreement. This also had some
impacts on the Indonesian automobile sector, as the component products were exported to China (see discussions in Chapter 2).

The import substitution policies adopted by the government resulted in the growth of the component sector (Nag et al. 2007: 25; Rasiah 2004: 9). It is argued that the deletion programme partly contributed to the development of the automotive component sector, particularly in the four-wheel and two-wheel motor vehicle areas (Sato 1998, as cited in Tarmidi 2003: 99). Component companies (first-tier) have been able to produce quality products to support Indonesia as a production base for several Japanese automobile companies, including Toyota and Suzuki (Pasha and Setiati 2011).

Nonetheless, the component sector though experienced rapid development as a result of protectionist policies remained basically ancillary (Nag et al. 2007: 26). The majority of components with high technology content as well as requiring precision in their production still needed to be imported (ibid.; Hale 2001: 630). Presently, domestic component firms focus on producing low value, relatively simple and labour/natural-intensive components, such as tires, electrical equipment, wires, and conductors (ibid.). Japanese-affiliated car companies in Indonesia, for example, import components from either Japan or Thailand (Nag et al.: 33). Another argument claims that local component development was actually in slow pace, and certain types of vehicles, such as sedans, continue to contain little local content (Hale 2001: 631). Tarmidi (2003: 96) argues that while the Indonesian automobile component manufacturers were much more numerous (223) than those in the Philippines (154) in 1996, they were still far behind those in Thailand (488) and Malaysia (515). Studies reveal that the programme to increase local production of compulsory machinery failed, mainly because small and medium-scale companies experienced problems related to lack of technology, capital, and skills in technical areas and marketing managements (Sato 2001, as cited in Tarmidi 2003: 99).

6.2. Analysing the Power of the State in the Indonesian Automobile GPN

Similar to the oil palm sector, the automobile sector has also seen the changing role of the state from exerting significant intervention to reducing such influence as a result of sector liberalisation. While foreign auto manufacturers, together with the domestic business actors, have been playing an important role in the automobile sector in Indonesia since the initial development, they have become a more prominent actor following the Asian financial crisis and liberalisation of the sector.

As in the case of the oil palm sector, the changing role of the state in the course of the development of the automobile sector should be approached within the dynamic shift of the political regime in Indonesia. As discussed in Chapter 7, the bureaucratic economy featured in Suharto’s authoritarian regime implied the
important role of the state in the national economic development, and the need for business actors to maintain patrimonial links with state patronage. As mentioned, patrimonial links serve as an element of political power mobilised by firms. The initial development of the automobile sector featured the import substitution policy, intended by the government to protect the automobile sector. The implementation of the policy put emphasis on the role of the local business actors, particularly those who have patrimonial links with the government officials. For instance, the regulations required foreign automobile manufacturers to appoint local business actors as sole agents. This was then used to cater to the interests of Suharto’s cronies. Astra Group, for example, which in the past had acted as a sole agent of and currently serves as a joint venture partner of Toyota, had close ties with the Suharto family (Aswicahyono et al. 2000: 222). Similarly, the Indomobil Group and Krama Yudha Group maintained patrimonial links with Suharto (Doner et al. 2006: 56). A pronounced example is demonstrated in the national vehicle project, Timor, carried out under the management of Tommy Suharto, Suharto’s youngest son. This demonstrates how the nationalist intention to protect the local industry has led to rents attracting politically powerful investors (Aswicahyono et al., 223).

As will be explained further in Chapter 7, the state continues to play an important role despite the decreasing intervention following the liberalisation of the automobile sector. Moreover, the decreasing role of the state following the liberalisation measures is a result of political decision. Such decision reflects state support for particular policy directions and how these policies underpin accumulation strategies based on free trade and free market ideologies. It also shows how the state’s power is constrained by the very same social and economic mechanism it seeks to protect. Here, it conforms to the theoretical argument on how the state serves as a relation of social forces.

The liberalisation measures implemented since shortly prior to the Asian crisis have changed the dynamics of these political connections. While such connections were previously used to cater domestic business actors who had close relationships with Suharto, the political links during the liberalisation period are maintained to back the intention of the foreign (mainly Japanese) investors to pursue regional integration. This goes along with the political regime in the reform era, which restructures power constellation between the state and capital in such ways that patrimonial links with the state remain important (see discussion in Chapter 7). As such, even though the role of the state seems to be decreasing following market and trade liberalisation, the state continues to play an important role. This corresponds to the relative autonomy character of the state.

Unlike in the oil palm plantation sector, the relevant ministries in the automobile sector involve fewer government institutions. They are the Ministry of Industry, the Ministry of Trade, the Ministry of Finance and the Ministry of Manpower
and Transmigration. As obviously reflected in the names of the ministries, the Ministry of Industry is in charge of promoting and protecting the automobile industry; the Ministries of Trade and Finance are responsible for exports, imports, and tariffs (both exports and imports); while the Ministry of Manpower and Transmigration takes care of workers as well as makes sure that workers have the necessary skills required by the automobile sector. The first three ministries work closely together to encourage the automobile sector. However, when it comes to trade issues (exports, imports, tariffs), the Ministry of Trade leads the group. Assessment studies might be made by the Ministry of Industry, but the decisions on to what extent the domestic market will be opened lies in the hands of the Ministry of Trade (interview with Ministry of Industry 15 and 18 June 2012). While the Ministry of Industry generally attempts to boost a liberalised and efficient auto sector, it is however more concerned with pure local companies, which make the largest share in the third-tier suppliers. Trade liberalisation channel imports components more smoothly, and thus could severely hit second and third-tier suppliers. Pure local suppliers are in a disproportionate position as the keiretsu system mainly involves only Japanese-based joint venture companies (Irawati 2010). In contrast, the Ministry of Trade’s argument that Indonesia is lagging behind Thailand in terms of the automobile sector’s performance is associated with the fact that Indonesia embarked on liberalisation-oriented policies relatively later than Thailand (interview with Ministry of Trade, 20 December 2013). Again, this shows how sectoral ego also occurs in the automobile sector. In fact, it actually characterises the coordination between ministries, which not only affects the oil palm plantation and automobile sectors, but other sectors too.

Furthermore, in comparison to its role in the oil palm sector, the local government agency has relatively less influence in the automobile sector. Except for issues on working conditions and local public infrastructure, the local government agency has rarely come into the spotlight. The industrial clusters, in which the automobile factories are mainly located, are regulated by the central government. The clusters are mainly operated by private companies.

6.3. Private Actors and the Inter-firms relationships

The automobile value chain was traditionally organised in tiers (Veloso and Kumar 2002: 12). Original equipment manufacturers (OEM) carry out the functions of designing and assembling the cars. First-tier suppliers deliver their products directly to the automakers. Second-tier suppliers produce simpler parts that are assembled by the first-tier suppliers. The third and fourth tiers supply raw materials. This arrangement also applies to the Indonesian automobile sector. The sector currently engages in supplying (including component and spare parts), assembling, and distributing foreign automobile brands, mainly
Japanese. The assembling activities are relatively more capital-intensive compared to the components sectors.

Although automobile assembling in Indonesia already existed in 1928, it was not further developed (Tarmidi 2003: 95). Until 1969, activities in the automobile sector were mainly trading with very limited assembling operations (Shauki 1996: 3, as cited in Tarmidi: ibid.). During its initial development in the 1960s, the automobile sector was mainly assembly industry (Puraka et al. 2008: 14). When the sector was protected as a result of import substitution policy, Japanese car companies penetrated the Indonesian market through direct investment, particularly by establishing joint ventures with local entrepreneurs (ibid.: Tang 1990: 70). Japanese companies have dominated investments in the Indonesian automobile sector since the 1980s (Cipta 2011: 2). This not only happens in Indonesia, but also in other Southeast Asian countries. In fact, Japanese car companies have dominated the ASEAN automobile market since the mid-1970s (Tang 1988: 28). At the time, the Japanese automobile manufacturers targeted both developed (mainly North America) and developing countries (mainly Southeast Asia), though with different objectives. The latter initially served as a low-cost production base, mainly to secure supply of raw materials for Japanese car companies (Irawati 2012: 51). In the mid-1980s yen appreciation made exports from Japan less competitive. This led to the Japanese car companies to make the automobile clusters in Southeast Asian countries (i.e. Thailand, Indonesia, Malaysia, and the Philippines) as extensions of their home base. An additional benefit for the companies is associated with the rising markets in these countries (ibid.: 54).

After the automobile sector in Indonesia was liberalised, more players entered the sector, such as the US General Motors, which assembles Opel and Chevrolet, South Korea with Hyundai and KIA, France with Peugeot, and Germany with BMW and Mercedes (Puraka et al. 2008: 14). As of 2008, there were 20 car assemblers producing 35 brands of motored vehicle with a total production capacity of 700,000 units per year.

As mentioned earlier, ASEAN Free Trade Agreement (AFTA), which came into force in 2002, enabled Japanese auto manufacturers to promote their strategies for the markets in Southeast Asian countries, particularly Thailand, Malaysia, and Indonesia. Not surprising, in 2003, a significant amount of foreign investment flew into the auto component sector (data from Indonesian Investment Coordinating Board). As for assemblers or manufacturers, no record of inward investment was found for this period. However, in 2007 and 2008, following the enactment of Law No. 25/2007 on Foreign Investments as well as the entry into effect of the Indonesia-Japan Economic Partnership Agreement (IJEPA), there were substantial amounts of foreign investment coming into the auto assembling and manufacturing activities. Similarly, in 2011, there were significant increases in foreign investments flowing into component and
assembling/manufacturing activities in Indonesia following the ASEAN-China Free Trade Agreement (ACFTA), which came into effect in 2010 (data from Indonesian Investment Coordinating Board). Indonesia, as is also the case for the other Southeast Asian auto producers, has been the focus of Japanese auto manufacturers. According to an interview with the Ministry of Trade (interview 20 December 2013), Indonesia, together with Thailand, serve as a production hub for the Southeast Asian market. With the rising market in Indonesia, the country has become even more attractive for these auto manufacturers. Liberalisation measures that have implications on the auto sector in the country may open regional strategies of the Japanese auto companies, while these companies also seek to enhance mutually reinforcing ties with the government. Similarly, Japan and China also serve as important markets for the components from Indonesia (see discussions in Chapter 2).

In Indonesia, major players in the automobile sector are principals (foreign automakers), sole agents, assemblers, component part manufacturers (i.e. suppliers), and distributors (Tang 1990: 60). Except for principals, these roles are predominantly taken by three big groups of companies (i.e. Astra Group, Indomobil Group, and Krama Yudha Mitsubishi Group). In the global commodity chain (GCC) framework, the automobile production system is viewed as a producer-driven commodity chain, whereas in the global value chain (GVC) framework the production system is considered a value chain characterised with a hierarchal relationship. How these arguments apply to the Indonesian automobile sector will be examined below.

The role of sole agents in the Indonesian automobile sector is essentially a legacy of import substitution policies adopted by the country in the past. As mentioned, in the beginning of the Indonesian automobile development, the government required foreign car companies to appoint sole agents. In Indonesia, some sole agents control multiple brands and assembly plants (Doner et al. 2006: 56). As mentioned, three big groups dominate the role of sole agents, namely, Astra Group, Indomobil Group, and PT Krama Yudha Group.

Several transactions take place between principals (foreign auto companies) and sole agents, namely: (1) initial and additional investment in sole agent and related entities; (2) shipments of raw materials, including CKD, from principals to sole agents; (3) the transfer of technology know-how; (4) inter-corporate loans or advances; (5) transfer of administrative and other type of services (Tang 1988: 28-30; Tang 1990: 71). Initial and additional investment is demonstrated by equity contributions to the sole agent and its related entities. Dividends or shares of corporate profits (or losses) illustrate the transfer price(s) for such investments. In the shipment of raw materials, it is doubtful that a sole agent can negotiate with its principal on an arm’s length basis, reflecting the fact that the sole agent is a captive buyer. This also shows the dependency on foreign principals when it comes to certain components, such as machines (interview
Transfer of technology know-how takes place in the joint venture established by principal and sole agents in assembling automobiles. This transfer might ‘include the use of patents and technical information necessary for the industrial reproduction of an automobile or process’ (Tang 1990: 71). Transfer of technology occurs through licensing and technical agreement (Setiono 2002; Aswichyono and Kartika 2010). It is argued that technology transfer to local companies is limited due to Indonesia’s poor education and skill level (Doner et al. 2006: 58). Inter-corporate loans are important in financing overall operations of automobile companies and their subsidiaries (Tang 1990: 72). Equity contributions may sometimes be disguised as intercorporate loans, with debt servicing the concealment profit shifting (ibid.). To avoid high interest, sole agents prefer to borrow from foreign sources rather than from local banks (ibid.). Additionally, transfer of administrative and other type of services might ‘include corporate planning and budgeting control, supervision of the production or marketing function, employee training, auditing and so forth” (Tang 1990: 75).

The sole agents import CKD cars from foreign car companies, and subsequently arrange contracts with related or independent assemblers to assemble automobiles (Tang 1988: 28). Related assembler refers to a car assembler established by sole agents, often as a joint venture between the sole agents and foreign auto companies. If the transaction takes place between a sole agent and related assembler, then the assembler provides assembly services for a fee per car (Tang 1990: 75). In the absence of a related assembler, assembling activities have to be contracted to a general assembler. Furthermore, the sole agent may have one or more component parts manufacturers supplying to assemblers. Following the full assembly of automobiles, the sole agent usually releases them to a marketing company, which will distribute automobiles to related or unrelated dealers to be sold to customers (ibid.: 76). Additionally, the sole agent or assembler might be controlled by a holding company, which may also have some controls over related component parts and marketing companies (ibid.). The holding company may also advise its subsidiaries to purchase automobiles from the marketing company under its control.

Basically, foreign car companies maintain control over engineering and production of their Indonesian subsidiaries. There are different arguments on who decides the number of car models manufactured by Indonesian car companies. One argument claims that it is decided by foreign auto companies (in this case Japanese car companies) together with their sole agents (Tang 1988: 30). In contrast, the other argument asserts that it is foreign auto companies that decide the number of the models, and sole agents do not have a voice. According to an interview with the Ministry of Trade, foreign car companies decide the export destination market for CBU cars manufactured or assembled in Indonesia (interview 20 December 2013). Following the Asian
financial crisis, many sole agents switched their role to only operate in car distribution (Pasha and Setiati 2011). Apart from the heavy debt triggered by the crisis, sole agents also left the assembling activities as a result of liberalisation in the automobile sector (Doner et al. 2006: 61). Indeed, the automobile sector liberalisation phases out the central role of sole agents, as non-sole agents are then allowed to import or assemble cars. According to Gaikindo (interview 25 June 2012), the sole agents still have significant influences in this new role, as it means they control the domestic market. Nonetheless, their role is limited in selling within the country, while exporting the products abroad remains in the authority of the principals.

The assemblers in Indonesia are predominantly joint ventures between sole agents and foreign automakers, the majority of which are Japanese. As mentioned, transfer of technology from foreign automobile manufacturers (principals) to local business actors are expected to occur through the establishment of such joint ventures, particularly on assembling activities. Following the financial crisis, many sole agents left their assembling activities due to financial problems, and thereafter concentrated on distribution roles. The assembling activities were taken over by their principal foreign automakers, which was reflected by the control of the majority of the shares of the assemblers by principal automakers (Aswicahyono and Kartika 2010; Puraka et al. 2008). Within the Indonesian automobile value chain, assembling activities is the node that receives the largest foreign investment, particularly from Japan (Doner et al. 2006: 11). Currently, there are around 22 assemblers producing for 20 foreign car brands. It is argued that economies of scale are difficult to achieve by original equipment manufacturers (OEMs) in Indonesia given the large number of assemblers producing for many brands but for a relatively small market, a proliferation of various makes and models, market segmentation, and lack of standardisation (Nag et al. 2007: 25; Aswicahyono 2000: 226). Many assemblers producing for a wide range of brands is not only the case in Indonesia, but also in some other Asian countries, such as China, the Philippines, and Vietnam (Abrenica 1998: 15).

First-tier suppliers in Indonesia are also predominantly joint ventures between foreign (mostly Japanese) and local companies (Aswicahyono and Kartika 2010). Some of them are related to the assemblers as they are established by sole agents and principals, who also establish joint venture of assemblers, to which these suppliers sell their products. This is driven by follow-sourcing attempt. This measure, for instance, is shown when Japanese suppliers relocate their factories following the relocation of the Japanese auto manufacturers. Sole agents or OEMs usually have two ways in determining their suppliers (Aswicahyono and Kartika 2010). First, principal companies assign the suppliers. In this regard, suppliers sometimes not only supply to local assemblers, but also principals as well as assemblers in other countries. Second,
OEMs open bidding for the suppliers based on quality and cost determined by OEMs. First-tier suppliers with famous OEMs brands include GS, Accu, Showa, and FSCM (Senada 2007: 10). They produce genuine or authorised components and sell, either to OEMs or to after-sales markets, through authorised dealers or distributors (ibid.). A study by Aswicahyono and Kartika slightly suspected that ‘there are some unknown barriers in the Japanese-principal production network that exclude the requirements on quality, cost and delivery, considering the shift of autoparts’ strategy to target after-sales markets’ (2010).

As for second-tier suppliers, most of them specialise in producing certain auto components and cannot supply all the components required by first-tier suppliers (Senada 2007: 11). Therefore, first-tier suppliers usually source from several second-tier suppliers. Apart from supplying to first-tier suppliers, second-tier suppliers also attempt to find their own niche market in the after-sales market (ibid.). They produce genuine components (OEM components) as well as non-OEM components (without authorisation from OEM) in the after-sales market. First-tier suppliers provide second-tier suppliers with raw materials required to produce components that will be supplied to the former suppliers. Moreover, sometimes component production process uses certain instruments not produced by second-tier suppliers themselves. In this case, second-tier suppliers outsource activities to provide such instruments to third-tier suppliers. Small and medium enterprises often act as third-tier suppliers (ibid.). Currently, there are around 350 firms acting as second- and third-tier suppliers (ibid.: 12).

The relationship between assemblers and their suppliers is evident, with the former acting as customers of products produced by the latter. Whereas certain suppliers depend on assemblers as their markets, some others also target after-sales markets (Pasha and Setiati 2011; Senada 2007: 9). Components such as tires, mufflers, and batteries are also sold in the after-sales markets (Pasha and Setiati 2011). Assemblers source some of the components locally, such as seats, audio, and batteries. These components are characterised by low skill and low technology (ibid.). Meanwhile, components requiring technical skill and high technology are produced by assemblers in-house. This explains the large import of components from Japan (see discussions in Chapter 2). While the OEM market is characterised with quality and cost competition, the after-sales market is much more price oriented (Pasha and Setiati 2011). The after-sales market is divided into the OEM market, which sells genuine or authorised components, and non-OEM market, which sell components without OEM brands and with lower quality as well as lower price (Senada 2007: 11). The OEM market usually involves authorised distributors or dealers, whereas the non-OEM market usually includes the network of small retailers or car service stations (ibid.). The non-OEM after-sales market is currently invaded by components made in China, Taiwan, Thailand, and Vietnam, which triggers competition with
local component companies (ibid.: 13). It faces serious counterfeit problems and illegal imports, in which 70% auto parts and components are either not authorised or sold on the black market (Pasha and Setiati 2011). During the Asian financial crisis, these illegal imports, which come mostly from Taiwan or China, were rampant, as consumers moved from purchasing from authorised dealers to general retailers (ibid.; Aswicahyono and Kartika 2010). It is argued that consumers tend to purchase genuine components (with OEM brands) in the first three years after they purchase vehicles (particularly during the guarantee periods), and afterwards they turn to non-OEM components (Senada 2007: 14). Meanwhile, it is argued that the relationships between suppliers (first, second, and third tiers) shift from hierarchical to arms length relationships (ibid.: 12). According to the argument, this is attributed to the expansion of after-sales market, in which second- and third-tier suppliers can find their alternative markets. Nevertheless, as will be discussed in the case study, first- and second-tier suppliers can also form a quasi-hierarchical relationship.

The above explanations on the role of sole agents, assemblers, and suppliers in the Indonesian automobile sector clearly show that there is no single value chain governance found in the sector. The inter-firms relationships between principals and assemblers mainly feature hierarchical relationships, as assemblers are predominantly joint ventures between principals and local sole agents. The relationships between principals and sole agents are characterised by captive relationships, with the latter depending on the former in terms of technological capability and market. However, as sole agents currently switch to the role as distributors, whether or not they are such captive relationships is subject to further research. First-tier suppliers established in Indonesia as joint ventures between principals and local companies also enter into hierarchical relationship with the principals. Meanwhile, first-tier suppliers established in Indonesia as a result of follow sourcing have quasi-hierarchical relationships with assemblers, with the former subordinated to the latter. Quasi-hierarchical relationships are also typical between first- and second-tier suppliers.

Japanese automobile companies are characterised with their keiretsu system in their relationship with their suppliers. The keiretsu system involves a tight, long-term, and stable relationship between Japanese auto companies and their suppliers, which serves as an important foundation for lean manufacturing system adopted by Japanese auto companies. The system allows companies to avoid high costs resulting from transforming, monitoring, and enforcement (Lindsey 1985, as cited in Irawati 2012: 54). The Japanese automobile keiretsu in particular features vertical keiretsu, in which there is a dominating firm and, as a result, a power inequality among member firms (Lai 1999: 429). In such types of keiretsu, the material equity holdings run from central manufacturers and suppliers to affiliated suppliers (McGuire and Dow 2009, as cited in Brouthers et al. 2014: 2604). The system comprises a tight internal control
combined with several types of ties (e.g., legal, financial, operational, personal) and is supported by a symbiotic relationship between firms and government bureaucrats (Lai 1999: 428). The benefits of the system include fewer suppliers, lower transaction costs, increased coordination and innovation, lower opportunism, and a more stable production (McGuire and Dow 2009, as cited in Brouthers et al. 2014: 2604).

Noting that Japanese auto companies are dominant in the sector, this is expected to occur in the Indonesia automobile sector.\(^{48}\) It is argued that what commonly occurs tends to be opportunistic behaviour—shallow, short-term, and non-exclusive—different what takes place in Japan (Sato 1998a, as cited in Aswicahyono 2000: 233). Aswicahyono (2000: 233–4) provides explanation for this situation. With highly segmented and small markets, suppliers in Indonesia are pushed to serve several assemblers in an attempt to achieve economies of scale. The auto assemblers were reluctant to have long-term relationships with a large number of small-scale producers of low-quality replacement parts. As a result, supplier firms are relatively vulnerable to be closed down and they face difficulties related to appropriating return from investment in their skill base. Furthermore, many of the assemblers possess limited technological capacity, which in turn restrains their capacity to be agents for technological transfers. However, Aswicahyono’s argument should be taken cautiously. Irawati (2008, 2010) argues that the keiretsu network is found in the relationship between Japanese foreign auto companies and Japanese-affiliated suppliers in Indonesia, making the pure local suppliers isolated from the keiretsu network. With the pure domestic suppliers, Japanese Original Equipment Manufacturers (OEMs) establish a far looser relationship, a so-called ‘market-sharing agreement’ or ‘multiple-sourcing’, in which the OEMs source similar products from different suppliers at different times (Irawati 2008: 8). As such, pure local suppliers face tough competition with their Japanese affiliated-counterparts (Irawati 2010).

The Indonesian automobile production network features vertical inter-firm linkages and subcontracting networks as a result of government intervention and import substitution policy in the past (Aswicahyono 2000: 231). Product fragmentation carried out by Japanese foreign car companies, such as Toyota and Honda, depends on services link costs, such as transportation costs, telecommunication costs, and several coordination costs between factories (Pasha and Setiati 2011). In some countries in Southeast Asia such as Indonesia, logistic costs are considered high due to poor infrastructure, underdeveloped transport and logistic services, as well as costly bureaucratic red tape (Carruthers et al. 2003, as cited in Pasha and Setiati 2011).

\(^{48}\) With the typical lean production system, establishing production facilities abroad means that the Japanese car companies also have to transfer the whole organisational structure.
The government’s intention to implement the local content program was actually to push assemblers to procure locally made components instead of produce components in-house (Tarmidi 2003: 99). Nonetheless, in the perspective of foreign principals, there were only very few local component manufacturers reliable enough to assure stable supply in large quantities as well as to meet the specified quality standard and guarantee timely delivery (ibid.). Facing schedule of deletion programme, for example, Japanese foreign auto manufacturers persuaded their subcontractors and suppliers in Japan to conduct direct investments in Indonesia or to license their technologies to Indonesians, which led into follow-sourcing practices. Additionally, while deletion programme brought about the decline in the import content in the automobile assembly industry, the proportion of import content in the auto component industry has actually risen, showing the dependency of the component industry on imports (ibid.: 108).

From the above discussions it can be underlined that foreign (mainly Japanese) automobile manufacturers (principals) possess financial power, particularly demonstrated through their investments into joint ventures in assembling and manufacturing operations. With such influence, principals are also able to bring along their suppliers to Indonesia. The typical *keiretsu* automobile production networks support this measure. The local business actors also, to a certain extent, have financial power, especially the large conglomerates. The rent from protectionist regulations enjoyed by these business actors eventually helped boost their financial power. Nonetheless, such power was shattered following the Asian financial crisis, pushing these actors to leave their role as sole agents, and focus more on the role as distributors.

Apart from financial power, these principals also possess technological power, in terms of the necessary level of technical capability in manufacturing cars. Transfer of technology is expected to take place by establishing joint ventures with local partners to operate in assembling or manufacturing activities. However, these local partners are mainly traders, and the protectionist regulations, which offered them economic rents in the past, did not help motivate these actors to gain the necessary level of know-how in manufacturing cars (Tarmidi 2003; EU-Indonesia Business Network 2014). As for suppliers, the case study below shows how suppliers may possess certain technical capability, usually limited to producing certain auto components.

Most of the auto assemblers and manufacturers are members of Gaikindo (the Association of Indonesian Automotive Industry). Established in 1969, the Association was a merger between an association of auto sole agents as well as auto assemblers. Currently, Gaikindo consists of 41 auto assemblers, manufacturers, and distributors. The Association represents the voice of the industry, especially during the discussions on policies (including tariffs and taxes) in the automobile sector held by the government (interview 25 June
Gaikindo also actively plays a role in the issues on fossil fuel as well as skill requirements in the auto sector. Additionally, the Association is intensely promoting the markets (either domestic or abroad) of cars produced or assembled by the Indonesian automobile sector, for instance, by holding various exhibition events. My interview with Gaikindo (interview 25 June 2012) revealed that the liberalisation of the automobile sector is considered a positive step taken by Indonesia. Gaikindo argues that the fame of Thailand as the ‘Detroit’ of Southeast Asia is attributed to the liberalisation measures taken by the country relatively earlier compared to other countries in the Southeast Asia region. Gaikindo is not surprised by (and in fact welcomes) the domination of foreign auto companies in Indonesia, as the sector is perceived as capital-, technology-, and power-intensive (the latter means power to dominate the market). Indeed, Gaikindo praises the current regulation on foreign investment as it recognises tax holiday (unlike the former regulation), which serves as an important incentive for the auto sector. Nonetheless, the Association argues that the current tax holiday imposed by the government is not as attractive as it is in Thailand. Gaikindo also expresses the lack of policy coherence for the automobile sector.

6.4. Case Study of Company A and Its First- and Second-tier Suppliers

Company A is a large Japanese-based assembler, producing a brand that has around 30% market share in the automobile sector in Indonesia. The company has played an important role in the development of the Indonesian automobile sector. The principal of Company A, a large Japanese automobile manufacturer, established joint ventures with a local large business group, the Astra Group, in order to operate the assembling and supplier activities in Indonesia. Following the Asian financial crisis, Company A acquired the majority of the assembler ownership, while Astra Group has ever since focused on distribution activities. At the regional level, the principal of Company A spreads its manufacturing activities across Southeast Asian countries according to the countries’ domestic markets and manufacturing capabilities. For instance, Thailand serves as the production base for the sedan type, while Indonesia is the main base for the multi-purpose vehicle (MPV) type.

The principal of Company A also works together with another Japanese manufacturer to establish ‘super keiretsu’, producing some common components for the family wagon car (Irawati 2012: 55). This is intended to cater to the demands of the Asian market as well as to maintain Japanese domination in the regional markets. In Indonesia, the super keiretsu of Company A and its group company controls 55% of the automobile market. Currently, the cars produced by Company A are sold at the domestic market as well as exported to Southeast Asian and Middle Eastern countries.
Company A also has a strong, although indirect, representation in Gaikindo (the Association of Indonesian Automotive Industry). It is well known that Gaikindo is deeply embedded by the Astra Group, the local big group associated with Company A through joint venture. For many periods, the chairmen of Gaikindo had been the directors of the Astra Group. The current (period of 2016–19) chairman of Gaikindo is the director of another Japanese car manufacturer. Nonetheless, prior to his current post in the company, he served a few positions in the Astra Group. The indirectly strong representation of Company A in Gaikindo allows the company not only to voice its interest, but also to influence other business actors, which in turn gives the company the capacity to frame its interest as a collective interest.

Company A adopts Toyota Production System (TPS), which aims at achieving the best quality, cost efficiency, shortest lead time, workplace safety, and strong work ethic (i.e., quality, cost, delivery, safety, and morale; Liker 2006: 40–41). In general, the TPS essentially depicts lean manufacturing and flexible production system. The TPS is built on three pillars, which include just-in-time production, continuous improvement (kaizen), and quality in production process (jidoka). With just-in-time production, the company can significantly reduce inventory costs. This also implies the elimination of safety net, which eventually puts pressure on the company to avoid product defects. This subsequently links to the jidoka pillar, as this pillar essentially implies the disclosure of (potential) problems. The emphasis on continuous improvement is demonstrated by several standards on human resources, such as skill requirements and development, which will be discussed in the next chapter. The TPS also lays out flexible takt time (production line speed) based on production volume and types of vehicle (Nakamura 2004: 203).

Company A operates two factories in Jakarta, and four factories in Karawang. At the time of the field research, only one of the four factories Karawang was in operation. The other three factories are relatively new. This indicates the attempt of Company A to expand its production facilities in Indonesia, intended to satisfy both domestic and export markets. The active factory in Karawang manufactures and assembles cars, whereas the factories in Jakarta produce engines and host stamping. The other three factories in Karawang manage assembling activities as well as producing engines. This shows how Company A also produces certain auto components in-house.

The interview with the factory manager in Karawang confirms the five key performance indicators (KPI) (i.e., safety, quality, productivity, cost, and morale) that the factory must comply with (interview 7 June 2012). According

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49 This move is also followed by other Japanese automobile manufacturers in Indonesia, as it is documented that these companies expand their production facilities.
to Company A’s guidelines, the factory adopts the *Junbiki*\(^{50}\) method in its relationship with its first-tier suppliers. Company A, however, does not adopt this method to all of its suppliers. At the time of the interview, there were 72 first-tier suppliers sourcing to the factory. Some of these suppliers are located within 15 km of the factory, while the rest are spread across Jakarta, Tangerang, and West Java (i.e., Bekasi and Cibitung). These first-tier suppliers are predominantly joint ventures, mainly between Japanese and local firms. In another case, the company also adopts *Jundate*.\(^{51}\) It is Company A who decides which order method will be used. According to an interview with the head of purchasing division of Company A (interviews 27 November and 2 December 2013), the company arranges the transportation of these components and/or parts from the suppliers to the company’s factories. From the company’s perspective, this is by far the most effective and efficient arrangement to ensure the availability of the required components and/or parts. Should suppliers not be able to make the components and/or parts ready to be picked up by Company A’s assigned trucks, they are notified by the company and the issue will be included in the subjects discussed in the monthly suppliers’ performance appraisal. As will be explained below, measures to overcome this problem are approached in a more preventive way, rather than ‘punishing’ the suppliers.

I also interviewed the head of purchasing division of Company A in order to investigate the relationship between Company A and its suppliers (interviews 27 November and 2 December 2013). Company A has 107 first-tier suppliers as per the time of the interview. The interview results confirm that Company A maintains a long-term relationship with these suppliers. In this case, the company prefers the suppliers who are well aware of how the system and arrangement of Company A work. This also implies the preference of Company A for single-sourcing to multi-sourcing. The company realises the risk of putting all its eggs in one basket, especially when the suppliers face problems. For this reason, Company A puts emphasis on preventive measures. Nonetheless, the company also admits that multi-sourcing is sometimes implemented when the company faces a high production volume. Furthermore, the number of its first-tier suppliers might also be changing due to some business aspects, such as when Company A decides to no longer produce certain car models.

The decision for Company A to source locally or import among others rests on the manufacturing capability of the suppliers. If the company views that there is no available local suppliers capable of producing components or parts with the required standard, then Company A has to source from suppliers abroad, in this case mainly from Thailand and Japan. According to the interview with the head

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50 *Junbiki* refers to an order method in which supplier will have to deliver the components according to the production sequence (quantity, specification, and timing).

51 *Jundate* refers to an order method in which the manufacturer or the assembler does the sequencing of the components.
of purchasing division of Company A (interviews 27 November and 2 December 2013), there are no significant cost differences between sourcing locally and importing from Thailand on this matter. This is presumably contributed to by the ASEAN Free Trade Agreement (AFTA), which eventually reduces the cost of importing from Thailand. At the time of the interview, Company A announced through the media that it was interested in expanding its activities in Indonesia. This is not surprising, especially since Thailand (which serves as the largest automobile hub in Southeast Asia) suffered from major floods prior to the announcement, which in turn delayed the production of Company A in the regional market. In this move, Company A also certainly has to consider the market demand in Indonesia. In this case, the rising auto market in Indonesia, which hit one million units of sales in 2012, shows a promising target for the auto manufacturing company.

Apart from manufacturing capability and domestic market demand, the decision of Company A regarding components and/or parts procurements also takes into account the overall policy of the host countries. In this case, the regulations on local contents affect the company’s procuring practices. The interview with the head of purchasing division of Company A (interviews 27 November and 2 December 2013) revealed that the need for localisation also leads to the relocation of manufacturing activities from Japan to Indonesia or to other host countries. This includes the relocation of supplier operations. The arrangements are designed and discussed within the scope of global purchasing policies of Company A’s principal. Again, as the ASEAN Free Trade Agreement (AFTA) harmonises these regulations in the host countries in Southeast Asia, the FTA allows the principal of Company A to have more rooms for designing its regional strategies.

Company A conducts monthly performance appraisal of its suppliers, which includes factory inspections. The company then sends and discusses the feedback to its suppliers. The appraisals also serve as the basis for workshops and trainings offered by Company A to improve the activities and operations of its suppliers. Topics covered in the workshops and trainings also include the just-in-time process, as well as the overall application of Company A’s production system, also known as TPS) Rather than imposing a ‘stick’ or punishment, company A puts emphasis on continuous improvement on its suppliers. On technology transfers, the interview revealed how Company A interprets this measure in the scope of providing information to suppliers so that the latter can meet the requirements of Company A. There are also sometimes technical agreements involved to ensure confidentiality.

My research continues with Company B, which serves as a first-tier supplier of Company A. Company B manufactures several automobile parts, with anti-vibration rubber for automobile as their key product. Established in 1997, Company B is a joint-venture company involving local and Japanese
investments. The headquarters of Company B in Japan is not actually a supplier to the principal of Company A as in the case of follow-sourcing. Rather, one of the shareholders has a business relation with the principal of Company A in Japan. Even though this does not demonstrate the case of follow-sourcing, it nonetheless reflects the tight relationship between Japanese OEMs and suppliers. The company is rapidly growing (interview with Tunjung, HR Department of Company B, 13 November and 3 December 2013). While Company A has been a long time customer, Company B was (at the time of the interview) able to secure other two large Japanese-based automobile assemblers as their customers.

The interviews with the manager of Company B (interviews on 13 November, 3 and 4 December 2013) revealed how the company’s customers (including Company A) appoint suppliers that they already know or are already familiar with. This confirms the emphasis of the Japanese OEMs on their keiretsu in assigning suppliers. In the host country, in this case Indonesia, it is even substantiated in a greater deal by the OEMs, as many of their suppliers undertake follow-sourcing measures. It goes without question then that the OEMs put priority of these suppliers first.

The interviews also indicated how the customers control the technical details of the parts they are sourcing. Some customers, such as Company A, even go further to the extent of requiring Company B to supply from specific companies as their second-tier suppliers. This is usually because the customers are already aware of, or trust the technical capability of these second-tier suppliers, or even already have business relationships with these suppliers. These business relationships include investments or joint ventures established by the customers. It does not, however, imply that customers possess all the know-how. Company B takes a great deal of pride in having the technical capability of producing high quality anti-vibration rubber.

The interviews with Company B also confirm how Company A puts emphasis on the five key performance indicators (i.e., safety, quality, productivity, cost, and morale) when controlling the technical details of the products they buy from Company B. At the time of the interviews, Company A had just added the aspect of ‘environment’ to the indicators. Company A, for instance, provides training on how to reduce cost or how to apply occupational safety. According to Company B, Company A puts emphasis on Value Engineering/Value

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52 Suppliers use the term ‘customer’ when referring to the buyers of their products, which include the assemblers.

53 Suppliers of Company A have to submit a complete cost breakdown, which includes information on raw material, purchased components, processing and labour costs, overhead costs, and margin (Muller 2012: 130). Company A then make verifies this information as well as creates cost tables through which the company may keep track of historic cost information.
Analysis (VE/VA).\footnote{Basically, VE/VA refers to defining value as a function in relation to cost (Muller 2012: 134). Value Engineering means doing this measure prior to the production stage, while Value Analysis after the production stage. Company A requires its suppliers to present VE/VA as a part of the company’s purchasing practices. Suppliers are also evaluated based on this aspect as well as suppliers’ attempt to apply \textit{kaizen} \textbf{(continuous improvement)}.} On cost reduction, the interviews with Company B revealed how Company A continuously underlines stock reduction. Company B attempts to meet this demand, for instance, by reducing the reject rates. The pressures for cost reduction from the OEM are forwarded by Company B to its suppliers. Furthermore, the five key performance indicators required by Company A should be achieved by company B in a more balanced way. For example, cost efficiency and high quality products must not be achieved at the expense of occupational safety.

Getting access to Company A’s keiretsu seems to be relatively difficult. The interviews with the manager of Company B (interviews on 11 November, 3 and 4 December 2013) indicated how first-tier suppliers need to be audited by the assemblers’ principals. In this case, the principal of Company A from Japan would conduct audits on its first-tier suppliers in Indonesia. The suppliers, however, have to first qualify the standards imposed by Company A. If they do not qualify, they will not be entitled to go through the audit process by Company A’s principal. Company A also holds suppliers’ meetings every six months.

Contrary to the interviews with Company A, interviews with Company B concurred the ‘stick and carrot’ approach taken by assemblers. The ‘carrot’ approach might not be as straightforward as cutting off the business relationships with the suppliers. Rather, assemblers do not assign their suppliers any more projects. Thus, as Company B argues, suppliers always have to show performance improvement. Furthermore, assemblers seem to have more say during business discussions with their suppliers. The interview with Company B showed how their customers always win during the arguments. On cost reduction issues, for instance, suppliers, including in this case Company B, usually do not negotiate on the percentage of reduction demanded by assemblers. According to Company B, it is the pride of the suppliers to achieve the goal to reduce costs set by assemblers.

The main inputs used by Company B are rubber and metal. Metal is procured locally. However, their main local supplier for metal remains importing the metal sheets. Meanwhile, rubber is imported from Japan or Thailand. The company might be entitled for lower import duty under ASEAN Free Trade Agreement (AFTA) if the content of the material imported from Thailand qualifies the rules of origin (ROO) requirement. In the meantime, rubber imports from Japan are not entitled to the facilities offered under the Indonesian-Japan Economic Partnership Agreement (IJEPA), as rubber is not listed as a good exempted from import duty under IJEPA. Company B agrees that free trade
agreement may hurt local suppliers. However, the company also argues that it would be beneficial especially when there is no local supplier with the required technological capability. The company explains that assemblers, including Company A, actually prefer to source locally if capable local suppliers are available since it implies cheaper procurement costs.

The interviews with Company B brought into light the fact that Indonesia has a generally similar technological capability as Thailand. For instance, as the company states, the reject rates it achieves sometimes outcompete the suppliers in Thailand. That Thailand has more capable suppliers is attributed to the liberalisation earlier pursued by the country. This confirms the statement in the previous section regarding how Indonesia is still at par with Thailand in terms of its technological capability.

Regarding its own suppliers, Company B revealed that it still mainly relies on single-sourcing rather than multi-sourcing. At the time of the interview, the company had around 22 suppliers, half of which were with Japanese investments. When selecting its own suppliers, Company B also conducts an audit process. However, the large suppliers, who usually also serve as first-tier suppliers to assemblers, are not subject to company B’s audit. Apart from the limited number of auditors, what drives this exemption is the assumption that these suppliers are able to deliver along the required indicators (e.g. safety, quality, productivity, cost, and morale) given the fact that they also supply directly to the assemblers. Furthermore, company B argues that joint ventures between Japanese and local companies usually produce higher quality products compared to the purely local ones. Company B also provides training or workshops to suppliers that they consider lacking in this area, yet have the potential to improve. While Company B, as a first-tier supplier to Company A, is aware of as well as adheres to the Toyota Production System (TPS), it does not strictly convey the TPS principles to its suppliers. Suppliers already complying with TPS principles are usually those who also directly supply to Company A.

Company B does not demand its suppliers to source from specific companies, unless it is required to by the OEMs, in this case Company A. In some cases, however, Company B provides its suppliers the materials, as Company A demands it. Furthermore, Company B requires its suppliers to use Japanese metal sheets, and suppliers have to notify the company if they use the ones made in South Korea. Even if the metal sheets made in South Korea already meet the international standards, some tests still need to be conducted. According to Company B, this is a matter of trust. This attests to the tight relationships among Japanese-based assemblers and suppliers.

Company B cannot immediately cut off the business relationships with its suppliers should the latter not produce according to the standard indicators
required by Company B. The company also claims that its suppliers usually thrive to deliver according to the required standards, even sometimes at their own expense (e.g., less profit). When potential suppliers attempt to offer products with similar standards but cheaper price, current suppliers are given the chance to produce with competitive prices. This again confirms the tight and long-term relationships maintained between Company B and its suppliers and how this is considered mutually beneficial by both sides.

Similar to Company B, Company C is a first-tier supplier to Company A. Established in 1978, Company C is a joint venture between Japanese and local investments, producing automotive component parts with a factory located in an automotive cluster in Cikarang, West Java. The headquarters of Company C in Japan acts as a supplier to the principal of Company A in Japan. This indicates the follow-sourcing approach undertaken by Company C.

Interviews with the manager of Company C (interviews on 14 November and 17 December 2013) revealed that the materials are mainly imported from Japan arranged through Company C’s headquarters. The company, however, plans to localise its procurement more, while maintaining its high quality standards. This implies that from the company’s perspective, local suppliers have shown progress in their technical capabilities. Furthermore, Company C’s headquarters actively engages in technology transfer by, for instance, providing trainings, or introducing new product ranges.

Company C claims that assemblers do not directly influence the company’s procurement practices. However, assemblers usually specify the products in terms of standards and quality, which eventually shapes how Company C chooses its suppliers.

Regarding its relationship with Company A, Company C abides with the TPS. In this context, Company C complies with the performance indicators required by Company A (i.e., safety, quality, productivity, cost, and morale). Nonetheless, Company C does not implement the kanban system yet.

The fourth company subject to my case study is Company D. The company serves as a second-tier supplier to Company A. Like company B and C, Company D is a joint venture between Japanese and local investments. Established in 1996, the company has two factories located in the automotive clusters in Cibitung and Karawang, West Java, producing automobile and motorcycle parts (i.e., plastic and mould injection/blow). The principal of the company in Japan serves as a supplier to a large motorcycle manufacturer in Japan. This motorcycle manufacturer established its assembling operation in Indonesia, followed by its suppliers, namely, Company D. This attests to the follow-sourcing approach of Company D.

While supplying only to motorcycle manufacturers at the time of its establishment, Company D then expanded its operations by also supplying to
first-tier automobile suppliers and OEMs. This implies that for certain OEMs, Company D serves as a first-tier supplier. These customers of Company D’s products are mainly Japanese-based companies. For Company D’s operations, the materials are both imported (i.e., from Japan, Thailand, and Singapore) and sourced locally.

The interview with the general manager of Company D reveals that when supplying to assemblers, the company usually has to source the materials from them due to cost controls exercised by these companies (interview 16 May 2012). When supplying to first-tier suppliers, the company usually implements multi-sourcing based on cost competitive principles. These first-tier suppliers mainly demand the company to cut costs down, which will then be forwarded by Company D to its suppliers. Sometimes Company D is not only asked to supply components but also to invest in delivering some components. The company puts emphasis on QCD (quality, cost, and delivery), as these things are demanded the most by its customers (either the OEMs or the first-tier suppliers).

Company D maintains the coordination with its headquarters in Japan on the issues of investments and budgets. Except for the customers brought in by the principal in Japan, the company has to find its own customers in Indonesia. Meanwhile, the Japanese principal actively seeks transfer of technology by providing advanced machineries.

From the discussions above, some conclusions can be drawn. It is confirmed that the relationships between the OEMs and the suppliers, which are mainly Japanese-based companies or joint ventures, feature tight and long-term relationships. The suppliers were mainly established in Indonesia as a result of follow-sourcing approach, or whose headquarters in Japan already have business relationships with assemblers’ principals there. This implies the preference of the Japanese-based OEMs for suppliers already within their production networks, which eventually enhances long-term relationships. As such, it can be inferred that getting into the mainly Japanese-based OEMs-suppliers keiretsu might be relatively difficult for a new supplier, especially if the latter has never had any business relationships with either the assemblers or the suppliers within the keiretsu. This confirms the arguments discussed earlier regarding the difficulty for new local suppliers to enter the Japanese-based automobile production networks.

Within this production network, suppliers may not have a fixed role, either as a first-tier or a second-tier supplier, depending on what automobile components are being discussed. A second-tier supplier of one automobile part may simultaneously serve as a first-tier supplier for another automobile component. Furthermore, as indicated, costs competitiveness does not have to mean sacrificing long-term relationships. Suppliers are often asked to re-examine the prices their offer when potential suppliers propose cheaper rates. It is also not
uncommon for suppliers and distributors to sacrifice for the sake of meeting the demand of Company A (Lai 1999: 429). Potential suppliers also cannot rely on cheaper rates alone, as trust is highly emphasised in the business relationships between assemblers and their suppliers as well as between the suppliers.

The tight relationships are also demonstrated in the conformity of production system between the OEMs and its suppliers. As discussed in the case study, suppliers of company A must comply with the Toyota Production System (TPS). Company A dictates the requirements of the products as well as the production process conducted by its suppliers based on the performance indicators laid out in the TPS. This serves as a mechanism of internal control employed by company A towards member firms in the *keiretsu*.

The first-tier suppliers subject to the case study are not directly related to the assembler (i.e., Company A). As such, they are not in hierarchal relationships with Company A. Nonetheless, as discussed above, the assembler plays a significant influence on the suppliers’ decisions, although not always directly. This attests to the fact that the inter-firm relationships between these companies feature quasi-hierarchal production governance, rather than an arm’s length relationship. This is also in line with the claim of unequal power distribution in the *keiretsu* system. Furthermore, the relationship between the first- and second-tier suppliers depicts subcontracting activities, with the latter subordinated to the former, particularly in cost- and product-related decisions.

As mentioned, Company A took over the majority of the joint-venture assembling operation following the Asian financial crisis, leaving the local company partner in the distribution activities. After the crisis, the automobile sector was liberalised. This gave opportunities for Company A to make use of the supply networks of its Japanese principal. Despite the entry of new players following the sector’s liberalisation, Company A and its group company continue to dominate the Indonesian automobile market.

The principal of Company A is a Japanese-based company that has operations across a number of Southeast Asian countries. In this case, trade liberalisation (in this case AFTA) would affect Company A and its nexus of production in Indonesia depending on how the principal re-arranges its regional strategies in Southeast Asia. As discussed above, this would immediately affect the arrangements between Company A and its suppliers in Indonesia, which belong to Company A’s *keiretsu* network. As the case study shows, the competition would eventually put pressures on the assembler to cut costs down, which would in turn be transferred to its suppliers, as Company A employs a relatively strict cost control towards its suppliers.
6.5. Structural Power in the Indonesian Automobile GPN

The structural power in the automobile sector in Indonesia is demonstrated by the market power possessed and exercised by the car manufacturers. As mentioned earlier, the Japanese auto manufacturers amicably dominate the markets in Southeast Asian countries, particularly in Thailand, Malaysia, Indonesia, and the Philippines. The manufacturers have established themselves far more strongly than other car manufacturers. Their plants in these countries have served as extension to their home base factories. Additionally, as the countries are also considered important markets, the manufacturers have established extensive after-sales networks. As such, it is relatively more difficult for the non-Japanese car manufacturers to break the Japanese domination in the auto markets of these countries. This concurs with the national regulations. In Indonesia, for example, there is no regulation that protects dealers or franchise-holders. As such, Company A may employ dealer loyalty contracts demanding exclusivity towards its dealers or franchise-holders. This measure is taken when facing competition from other automobile firms.

Furthermore, the lean manufacturing system serves as a salient backbone of the Japanese car companies, as the system allows the companies to offer high quality cars with competitive, if not cheaper, prices. As a matter of fact, Toyota’s superiority in the auto global market is mainly attributed to its lean manufacturing system, which is the heart of TPS.

The penetration of the Japanese-based companies into the Indonesian automobile market corresponded to national regulations that were, at the time, oriented towards import-substituted industrialisation. As discussed, this led to the establishment of joint ventures between Japanese investors and local business actors. The protectionist policies promoted the market power of the large local conglomerates as one of the main business players during the time. While both the large Japanese car companies and local business groups enjoyed the dominance in the sector prior to the Asian financial crisis, after the crisis the local business groups played a lesser role than their Japanese counterparts. Apart from the financial trouble suffered by the local business groups, the aftermath of the Asian crisis saw the period of liberalisation of the automobile sector in Indonesia, which undermined these business groups, as the liberalisation further enhanced the market position of Japanese car manufacturers, while opening the market to new, foreign players.

This market power of the Japanese car manufacturers was further enhanced by the ASEAN Free Trade Agreement. As discussed above, AFTA allowed the companies to re-design their regional strategies, which involve intensified inter-industry components and different types of car trade, as well as cross-country benchmarking.
The ability of the Japanese car manufacturers to demand their suppliers to follow the former installing plants abroad, or the so-called ‘follow-sourcing’, was made possible by the market power of the car manufacturers. The keiretsu system inevitably provides an important foundation for the car manufacturers to exercise such power. Moreover, as discussed above, their market power enables car manufacturers to specify the products and materials procured from their suppliers. This implies the ability of the car manufacturers to require their suppliers to procure the materials used by the latter from certain companies.

6.6. Discursive Power in the Indonesian Automobile GPN

In the course of the development of the Indonesian automobile sector, several discourses have been in place, in which both the state and business actors have worked to improve their influence. The protectionist regulations featured in the initial development of the sector rest on the nationalist discourse during the time. As mentioned, the automobile sector was at the beginning seen as a strategic industry for the country. This argument was underlined to justify the government’s close intervention to the sector. The government prompted localised car manufacturing and assembling. Here, the role of sole agents came into play. The salient role of sole agents was given only to local business actors. As discussed, the foreign car manufacturers attempting to enter the Indonesian automobile sector had to appoint a local sole agent in order to import, assemble, and distribute cars, in both domestic and foreign markets. This gave an opportunity for local business conglomerates to enjoy economic rents. The nationalist discourse was particularly prominent in the attempt to produce Indonesia’s national car (see previous discussions on the case of Timor). This discourse does not feature in the Indonesian automobile sector alone. The discourse is also in place in the automobile sectors in Malaysia and Thailand. Whereas the former moves forward with ‘Proton’ as its national car, the latter has instead chosen to become an important supplier hub for Japanese car brands.

The development of the Indonesian automobile market paints an impressive picture. In 2012, market sales hit a new record of one million units, making the country the second largest Southeast Asian market after Thailand. Nonetheless, the political situation in Indonesia encounters pressures to cut fuel subsidies, which could in turn affect the country’s auto market. At the backdrop of these two seemingly contradicting conjunctures, in 2013 the government passed regulations that give tax incentives for the production of low-cost green cars. The incentives include reduced tax on luxury goods for low carbon emission and relatively fuel-efficient cars. The fuel-efficient cars go along with the initiatives to cut fuel subsidies. Meanwhile, the new variant is expected to establish a new niche market among middle-class consumers, which in turn stands to satisfy the rising Indonesian market. For auto manufacturers, this also implies sustaining
their market in the country. The attempt to produce green cars demonstrates how the state and business actors use sustainability discourse to achieve their objectives. For the state, this means to maintain their legitimacy in the face of pressures to cut fuel subsidies.

As discussed above, the Japanese car manufacturers mainly rely on the keiretsu system as an important backbone of their production organisation. The system allows these Japanese-based companies to cut certain costs, such as the transaction-related ones, while continuing to produce high quality products. The system, which puts emphasis on tight and long-term relationships, essentially embodies trusts and reliance between the manufacturers and suppliers built through years of working together (Lai 1999: 440). The trust is then extended to Japanese-based companies in general. As a result, as shown in the case study, Japanese car manufacturers and suppliers prefer to procure components with Japanese brands or those made by Japanese companies. This is a persistent discourse that gives Japanese-based component producers a comparative advantage in comparison to other component producers.

The above discussions on discourses in the Indonesian automobile sector show some important issues. First, the nationalist discourse expressed in the protectionist policies in the past allowed local conglomerates that had political ties with government officials to gain economic rents and enhance their market power. Second, following the Asian financial crisis and the IMF Package, the discourse shifted towards liberalisation discourse, which was used by Japanese-based companies to strengthen their market power in the Indonesian automobile sector. Third, along the production networks, the emphasis on tight and long-term relationships among suppliers became the main discourse underpinning the keiretsu network. Under this discourse, the price competition resulting from trade liberalisation would drive Japanese-based assemblers to exercise their influence (e.g., on cost control) even more towards their suppliers, with the obligation for the latter to follow such demand for the sake of maintaining the long-term relationships.

Summary:
This chapter discusses the power relations in the automobile GPNs. Similar to the case in the oil palm plantation sector, the automobile sector experience the changing role of the state from being the primary driver of the development of the sectors to the regulatory body. Nonetheless, as will be explained in Chapter 7 on the section of political regime, the role of the state remains important, as the fall of the authoritarian regime and the country’s embarkation towards market liberalisation lead to a reconstruction of power constellation between the state and capital actors. More importantly, this underlines how the state is a
relation of social forces and how its action and inaction reflect the contradictions inherently embodying it.

In the automobile GPN, the inter-firms relationship is organised with tiers of suppliers with automobile principal companies (e.g. original equipment manufacturers), mostly Japanese-based, playing as focal actors. Similar to the case in the oil palm plantation sector, he liberalisation measures taken by Indonesia have brought in or intensified the role of foreign companies in the automobile sector. In the sector, trade liberalisation was followed by the regional strategies of Japanese auto manufacturers, creating competitive pressures within the same brands or with other brands. In the oil palm plantation sector, trade liberalisation has increased the competitiveness of palm oil in the world oil market. Given the diversity of industries consuming palm oil, as well as its competitive production costs, palm oil has become an important commodity in the oil world market, to the point that the Indonesian government has to employ export duties in order to stabilise domestic consumption as well as to encourage the country’s downstream operations.

The striking difference between the oil palm and the automobile GPNs is the increasingly important role of private regulatory governance and civil society organisations in the oil palm GPN, which is not the case in the automobile industry. Issues around environmental degradations and land conflicts have led to the increasing importance of private regulatory governance as well as the close engagement of civil society organisations in the Indonesian oil palm GPN.

Analyses on discursive power show how both state and business actors work with certain discourses in order to justify their authority or even to increase their influence. This not only applies to state-capital relations, but also to inter-firm relations, both of which eventually affect labour relations in the sectors. The interplay of material and discursive power possessed or exercised by these actors is evident in the discussions of structural power in both the automobile and oil palm GPNs.
Chapter 7

Labour Situations, Labour Regime, and Labour Agency in the Indonesian Oil Palm Plantation and Automobile Sectors

This chapter discusses labour situations in the Indonesian oil palm plantation and automobile sectors. The chapter then takes the discussions into a more abstract level by analysing the labour regime and labour agency in both sectors. It ultimately attempts to offer systematic linkages between state-firm power relations (Chapters 5 and 6) and labour situations, and the agency of labour in the oil palm plantation and automobile sectors.

7.1. Labour Situations in the Indonesian Oil Palm Plantation and Automobile Sector

7.1.1. Labour Situations in the Indonesian Oil Palm Plantation Sector

The field research conducted in Riau province, Indonesia (as discussed in Chapter 4), was conducted in April 2012 on three company-operated plantations (henceforth, estates X, Y, and Z) as well as smallholder-owned plantations. Estate X, covering about 2,813 ha of oil palm plantations and with 484 workers is owned by Company X, one of the parastatal companies operating in the oil palm plantations sector in Indonesia. Estates Y and Z are operated by private plantation companies. These companies are subsidiaries of two foreign-owned company groups considered as key players in the oil palm sector (both upstream and downstream) in Indonesia and Malaysia. Both of these groups operate a substantial number of oil palm plantations in Indonesia. Company Y operates 208,000 ha of which Estate Y manages 2,928 hectares and employs 495 workers. Company Z operates 182,840 ha of which Estate Z manages 1,288 ha with 248 workers.

Before discussing about the condition of oil palm workers, the work processes on oil palm plantations is outlined briefly. There are basically three main phases on an oil palm plantation. The first phase involves preparation activities such as land clearing, seedling preparation, and planting. The second phase starts after seedlings are planted and include activities like maintenance and harvesting. The third phase occurs when palm trees reach their industry limit and involves replanting activities. This chapter will focus on the activities in the second phase, i.e., maintenance activities, including weeding, spraying and fertilising. On the plantations that I visited, I encountered three more activities. The first
one is called ‘nangkos’, a word coming from ‘jangkos’.\textsuperscript{55} This activity basically means the spreading of empty bunches to the soil in the plantation. The second one involves pouring a pesticide into a spraying tank. In some plantations, they do not need manpower to do this activity as they use a truck with a large tank filled with pesticides. The third one is the loading and unloading of the FFBs.

As mentioned in Chapter 2, the oil palm plantations in Indonesia are labour-intensive. Around 1.95 million workers are employed on plantations operated by parastatal and private companies, while about 1.7 million farmers toil on smallholder-owned plantations (Dewan Minyak Sawit Indonesia 2010: 36). However, this number might not include casual and unpaid labour working in the sector. Indeed, casual labour is quite common in the Indonesian oil palm plantation sector. Meanwhile, the permanent employment status of plantation workers is different from that of administrative workers, or the so-called ‘staff’. A study on the labour rights situation on large-scale oil palm plantations in North Sumatra (Siagian et al. 2011: 5) describes the structure of employment status on the oil palm plantations as a pyramid, with ‘staff’, as permanent workers are commonly referred, being on top of the pyramid. They have working contracts and receive pay slips. Below the staff category is the category of workers with a Syarat Kerja Umum (‘SKU’): General Work Requirement employment form. Although workers in this category are also considered permanent workers, they sometimes do not have working contracts and/or receive pay slips. Permanent workers at the plantations fall into this category. At the bottom of the pyramid, there are casual and unpaid labourers who are of two types—the casual labourer directly hired by the company, commonly called ‘BHL’ (Buruh Harian Lepas and those brought in by plantation workers to help them with activities on the plantations. Siagian et al. (ibid.) call the latter ‘kernet’ or assistant. In the pyramid, the position of a BHL is higher than an assistant.

This structure is confirmed on the plantations operated by private and parastatal companies visited in Riau. On Estate Y, while plantation workers are called SKU Harian Tetap (fixed daily SKU, which refers to regular wage worker), workers at the supervisor level, such as foremen, fall into the SKU Bulanan (monthly SKU) category. However, the structure remains similar to the pyramid described above. In Estate X, BHL workers are children or family members of SKU or staff workers. Estate Y has not hired BHL workers since 2007 as it is prohibited as per the RSPO (Roundtable Sustainable Palm Oil) certification. Nonetheless, one of the foremen interviewed mentioned that there is a possibility that workers might bring someone (i.e., an assistant) to the plantations to help them, especially for harvesting activities. Assistants are usually responsible for collecting individual fruits or the so-called brondolan.

\textsuperscript{55} An abbreviation for ‘janjang kosong’, which means empty fruit bunches in Indonesian.
The employment of an assistant is the responsibility of the workers who employ them, and not that of the company. This is also the case in Estate Z. The employment of assistants shows that casual labour is still prevalent on this plantation. According to SBPI (interview 8 November 2013), the rampant prevalence of casual workers in North Sumatra is partly because plantation companies sometimes require harvesters to bring assistants. Companies perceive that productivity will significantly drop without the help of the assistants. The work of the assistants is clearly not paid, but rather is counted within the payment received by the harvesters. Meanwhile, unpaid workers are commonly workers’ family members (e.g., wife, children) who help workers on the plantations. In most cases, they are helping workers carry out harvesting activities.

The SKU employment status is the predominant concern for workers engaged in harvesting activities (harvesters) in all three plantations visited in Riau. Only in Estate Y did both harvesters and maintenance workers have SKU employment status. This is the plantation that is already RSPO certified. In Estate X, few maintenance workers have SKU status, but most of them are BHL workers. This is perhaps because the plantation is supposed to undergo re-plantation in the near future and thus the company has decided not to carry out maintenance activities every day. I interviewed two SKU harvesters on this estate and both of them worked under BHL employment status. It seems that BHL status is an initial form of employment before they are hired as SKU workers. In Estate Z, all maintenance workers are BHL workers. This estate has the smallest area compared to the other two company-operated estates. The reason for hiring BHL workers for maintenance activities is the relatively small-scale plantation area which does not require extensive maintenance. In a given month, these activities can be finished within 10–15 days. The choice is that either the company reduces the number of maintenance workers but hires all maintenance workers with SKU status, or retains the workers but offers BHL status. Additionally, workers engaged in nangkos in Estate X are also BHL workers. In the same vein, workers who pour pesticides into spraying tanks in Estate Z are also employed with BHL status.

On the plantations operated by plasma smallholders, workers are by and large employed under BHL status. This confirms what a large body of studies in this sector have revealed (Siagian et al. 2011; Chamim et al. 2012). A similar situation is likely to apply in the case of workers on plantations operated by independent smallholders, where often members of the family or relatives worked in the plantation. The two workers interviewed mentioned that they work on two to three kaplings\textsuperscript{56} in a day. This implies that workers are often

\textsuperscript{56} Kapling refers to a plot of 2 ha. According to the NES scheme, each plasma smallholder is given 2 ha to cultivate palm trees.
hired by more than one plasma smallholder. These workers also bring their wives in order to help them with their work. This practice seems to be quite common for harvesters on plantations, both those owned by plasma and independent smallholders.

With regard to wages, SKU workers receive a basic salary and premium (or so-called *premi*) and have a daily target to meet. When these workers are able to achieve over the target, they will receive a premi, as well as an additional payment apart from their basic salary. For example, wages for SKU workers in Estate X are based on the minimum wage for the oil palm plantation sector in Riau, as mentioned below. The daily target for harvesters is 700 kg/day. If workers are able to harvest more than this target, they receive a premi with several layers of possible achievement. Brondolan collected are calculated separately. The premi for brondolan ranges from Rp 150/kg to Rp 300/kg.

In Estate Y, SKU workers receive Rp 1,133,500 a month as their wage. The estate sets a target of harvesting 1300 kg/day. If workers can harvest over this target, they get a premi, as well as an incentive amounting to Rp 13,500 when they are able to harvest more than the target. For example, in Estate X, the premi for brondolan is also calculated separately. The estate offers Rp 125/kg as a premi for the brondolan collected.

In harvesting activities, this system triggers the employment of assistants or unpaid workers. Harvesters clearly desire to get as many premis as possible. Harvesters employ assistants when the daily target is increased, especially during peak seasons. These assistants can be their relatives or friends. However, in normal cases, harvesters usually bring their wives and/or children to the plantations. In the case of one the SKU harvesters it was found that when his wife does not help him, his yield in a day dropped as much as 50%. In another case, it was revealed that an SKU harvester has to work two hours longer if his wife does not come and help him on the plantation. As for a BHL harvester interviewed, around 24% of his income is contributed by the work of his wife.

Nonetheless, I found that this payment system was not applied in Estate Z. Instead of using the above system, the company distributes the same scale of working plot (or *ancak*) amounting to 2.5–3 hectares. SKU harvesters on this plantation are paid at a rate of Rp 46 x 1.5 ton (harvesting capacity expected by the company) x 25 days, meaning Rp 1,725,000\(^{57}\) a month. This payment system implies that SKU harvesters do not receive fixed wages; they are paid by their output.

Meanwhile, the payment system for BHL workers on the plantations operated by plantation companies is based on the yield of the workers. In Estate X, the rate for BHL harvesters is Rp 1000/FFB. A harvester can usually collect 1 ton

\(^{57}\) Assuming $ 1 = Rp 10,000.
FFB a day, assuming that the average weight of an FFB is 10kg. This means that BHL harvesters could receive Rp 100,000 a day or Rp 2,600,000 a month (assuming that workers also work on Saturday). One of the BHL harvesters in Estate X is able to harvest 1300 FFBs in a month compared to 2000 FFBs in the past. This implies that he receives Rp 1,300,000 a month. The rate for BHL harvesters in the past was Rp 26-30/kg. This rate is actually better than the current rate because the current rate does not take into consideration the weight of the FFB. In the meantime, workers engaged in nangkos activities in Estate X receive Rp 30,000 per truck of jangkos. These workers are able to finish applying a truck of jangkos in a day if they work full time or if it is not raining. Under less than ideal circumstances, it takes them two to three days. Assuming that they can finish applying jangkos daily and it is not raining, these workers receive Rp 780,000 a month. However, I found that they are able to apply only 12 to 13 trucks of jangkos in a month, meaning that they receive only Rp 360,000 to Rp 390,000 a month.

Apart from wages, SKU workers on plantations as operated by plantation companies are also entitled to other benefits such as housing, electricity, water, and subsistence support (i.e., rice). All the three estates visited for this study, offer these benefits. In Estate Z, however, water is not provided by the company as a benefit in addition to wages. Workers have to pay for this utility. Estate Y provides 15 kg of rice per month to a worker, with an additional 9 kg per month for his wife, as well as a monthly amount of 7.5 kg for each child to a maximum of three children. Housing is provided generally in semi-permanent houses where workers can stay till retirement. This may become a problem for workers who are not able to spend some of their income to prepare their own housing. In Estate X, few workers were able to save money to build their own houses. Meanwhile, BHL workers in these estates are not entitled to these benefits. Those who stay in workers’ housing are either the spouses or family/relatives of the workers. In the case of one former BHL worker, I found that he was able to stay in the workers’ housing because the worker entitled to the house where he stayed already owned a house. As the distance between workers’ housing and the plantations is often quite far, companies provide transportation, such as pick-up cars. However, nowadays most of the workers have their own motorcycles, mostly bought through credit. Companies support this mechanism and sometimes help workers to get credit.

BHL workers interviewed on the plantations of smallholders receive Rp 100/ton. In a day, these workers are able to harvest 1 ton of FFBs. Assuming that they also work on Saturday, this means that these workers receive Rp 2,600,000 in a month. A BHL worker receives Rp 125,000/ton, which is higher than the normal rate for BHL workers in that area. As the worker revealed, this higher rate is because he and the smallholder employer are cousins. Another BHL harvester mentioned that he receives Rp 1,500,000 per month. Moreover, some of these
BHL workers might have additional income. Smallholders might let their workers take brondolan with them. Workers then sell brondolan to traders nearby. Apparently, not all workers have this possibility and it really depends on the willingness of the smallholders. In the case of one of the BHL harvesters, I found that he is only able to take brondolan with him if the employer does not know or does not watch. I observed that BHL workers who have family relations or are relatives of their employers have more possibility to do this. Additionally, unlike the SKU workers on company-operated plantations, BHL workers on smallholder-owned plantations are not entitled to other benefits such as housing, water, electricity, and subsistence support (i.e., rice).

According to the perspective of Estate X, the wage level offered by the company is sufficient for workers to live decently. If we compare the above numbers to the minimum wage for the oil palm plantation sector in Riau, amounting to Rp 1,389,450 as of 2012, it seems that these workers are better off, except for workers in Estate Y (see also Table 7.1.). However, there are three issues worth noting with regard to the minimum wage level (either sectoral or provincial) in Indonesia. The first problem is that the majority of the minimum wage level does not meet decent living needs. In Riau, the decent living needs for Siak and Kampar (the two regencies where the plantations visited are located) are Rp 1,455,340 and Rp 1,230,491, respectively, in 2011 (the data for 2012 were not accessible). We can see that while the above sectoral minimum wage applies to the oil palm plantation sector in Riau, it is slightly above the decent living need for Kampar regency, such a minimum wage is actually lower than the decent living need for Siak regency. If we compare the payment received by workers mentioned above to decent living needs in these two regencies, it appears that these workers are better off, except for the nangkos58 workers.

A highly contested issue surrounds the indicators used to set decent living needs. The indicators of decent living needs are set up by the central government under Permenakertrons No. 17/2005. The regulation lists 46 items that serve as the basis for a decent living needs survey at the regional level. Workers had been demanding the government to revise the regulation by including 122 items into the indicators. The revision was eventually conducted in 2012. Under Permenaketrans No. 13/2012, the government listed 60 items for the decent living needs indicators. However, this was not yet applicable during the time of my field research. Furthermore, the current indicators only take into account the living needs of single workers and thus disproportionately affect workers with spouses and children. Some cases described above demonstrate the income of workers with spouses and children. Although their income might be higher than decent living need levels in the regency, it is worth noting that such decent

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58 The activity of nangkos refers to spreading or applying empty bunches onto the plantation plots. In this way, empty bunches are treated as organic fertiliser for the plots.
living needs are applicable only for single workers. As such, it is questionable whether the income of these workers actually meets their decent living needs. This might also explain why these workers pursue as many premi as possible. Moreover, the minimum wage is supposedly used as a basis in determining the wage level between workers and companies. This is illustrated in the regulation, which states that minimum wage applies to workers whose working period is below 12 months. In practice, however, minimum wage is used as a maximum standard in determining the wage level.

For SKU workers in Estate Y, their wages are even below the minimum wage for the oil palm plantation sector in Riau (see also Table 7.1.). This wage level is stated in the collective agreement negotiated between the trade union and BKS-PPS (Badan Kerja Sama Perusahaan Perkebunan Sumatra/ Cooperation Board of Sumatra Plantation Companies), an association of plantation companies in Sumatra. Meanwhile, despite the fact that their income is higher than the minimum wage for the oil palm plantation sector in Riau, SKU workers in Estate Z do not receive fixed wages. This estate does not set a daily target that serves as the basis for the basic salary of SKU workers. Instead, the calculation of the salary received by these workers relies completely on workers’ productivity.

Table 7.1.: Comparison of worker income, minimum wage and decent living needs in Riau

<table>
<thead>
<tr>
<th>Type of Worker</th>
<th>Estate X</th>
<th>Estate Y</th>
<th>Estate Z</th>
<th>Plasma Plantations</th>
<th>Minimum Wage</th>
<th>Decent living needs*</th>
</tr>
</thead>
<tbody>
<tr>
<td>SKU workers</td>
<td>Rp 1,389,450 + premi</td>
<td>Rp 1,133,500 + premi</td>
<td>No fixed (basic) wage. Rp 1,725,000b</td>
<td>Rp 2,600,000b</td>
<td>Rp 1,389,450</td>
<td>Rp 1,230,491 for estate X and plasma plantations. Rp 1,455,340 for estates Y and Z</td>
</tr>
<tr>
<td>BHL workers</td>
<td>Rp 2,600,000c</td>
<td>-</td>
<td>Rp 1,387,670c</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes *: As determined by the government. Figure for 2011.

a This amount of salary requires workers to harvest 1.5 tons of FFBs

b Assuming that the average weight of an FFB is 10 kg (workers normally can harvest 1 ton FFBs in a day) and that workers also work on Saturday.

c This amount results from the total maintenance expenses for April 2012 (Rp 87,423,210) divided by the number of BHL workers as of the end of March 2012 (63 workers).

BHL workers on smallholder-owned plantations inevitably face the issues with minimum wage as mentioned above. Although it seems that these workers receive income higher than SKU workers on company-operated plantations, the
main problem for them is certainly their employment status. This also means that they do not receive regular income.

As mentioned, harvesters on company-operated plantations receive a premi when they are able to harvest more than the daily target, except in Estate Z. The premi serves as a reward for their productivity. However, a reward is always accompanied by punishment. Indeed, harvesters are sanctioned when they do not carry out their harvesting tasks properly. The sanctions are usually fines deducted from the harvester salaries. On estate Y, there are 20 activities that can result in sanctions. Only 2 of these 20 items are related to occupational safety and health, while the rest refer to improper harvesting activities. Every day, after working hours, a foreman has to prepare a working sheet, which indicates the productivity (which determines the premi) as well as the sanctions of his subordinate harvesters. This sheet becomes the basis for calculating the harvester salaries.

Workers commonly start working at 7a.m. In Estate X, some harvesters finish their work at 2p.m., and others at 5p.m. There is no fixed break time. The wives of the harvesters might come together with their harvester husbands, or a little bit later. These wives might also finish working at the same time with their husbands or finish earlier. SKU maintenance workers on this plantation work from 7a.m. to 11a.m. There is also no fixed break time as long as the target is met. They work from Monday to Saturday, and working on Sunday is considered as overtime. As such, if these workers work on Sunday the payment is on premi basis. One worker on this plantation disclosed that workers can opt to work on Sundays, but he himself feels that it will be a waste if he does not work on Sunday. In Estate Y, the working hours of the harvester are similar to that in Estate X. Harvesters might work until 5p.m. to collect their premi, but they are strongly discouraged to work over this working hours. Maintenance workers work from 7a.m. to 2p.m. with 30 minutes break. These workers were spraying pesticides when I visited them. While doing this activity, they get five minutes extra break every time their spraying tanks are being refilled. In a day, they have to refill their spraying tanks eight times. As such, they get additional 40 minutes extra break time. In Estate Z, SKU harvesters work from 7a.m. to 12 or 12.30 p.m. While undertaking the present study when the estate was visited, it was experiencing a low-yield season. During the high-yield season, harvesters work until 4 p.m. BHL maintenance workers work every day from 7a.m. to 3p.m., except on Friday, in which they work from 7a.m. to 12p.m. When it is time for them to spread fertilisers, they have to be at the company’s warehouse before 7a.m., as they need to load fertilisers to transporting trucks. They work for six days a week.

The BHL workers on plantations, operated by plasma smallholders, work from 7a.m. to 12 or 1p.m. Notice that these are harvesters who are also helped by
their wives. It takes three hours for them to harvest 1 kapling. Therefore, if they harvest two to three kaplings a day, they need to work for six to nine hours.

Although the length of working hours seems quite modest in the sense that there is no excessive overtime (like what might happen to factory workers), it is worth noting that plantation work is physically demanding. For example, harvesters have to carry a long sickle weighing in average 8 kg during harvesting activities. As will be mentioned below, maintenance workers must also carry 10–15l of spraying tanks on their backs during spraying activities.

On occupational safety and health issues, working on the plantations certainly exposes workers to some dangers. On the plantations, workers can come across dangerous animals, such as leeches, centipedes, pests, and even snakes. One of the harvesters told me that he sees snakes on the plantation almost every day. Another harvester confirmed this issue. In the harvesting activities, workers are particularly exposed to sands or even FFBs falling from the palm tree. Workers doing maintenance activities, such as spraying and fertilising, are exposed to pesticides and fertilisers. In both activities, workers are also vulnerable to injuries due to slippery soils, particularly in oil palm plots with sloping land.

From the three plantations operated by plantation companies that I visited, only Estate Y has a strict regulation on safety equipment in the plantation. Workers are not allowed to enter the workplace without the required safety equipment such as helmets, boots, uniforms, aprons, and masks. This is the plantation that is already RSPO certified. In the other two plantations, I found that: (1) some harvesters are not wearing their helmets and glasses; (2) some maintenance workers are not wearing masks and aprons. On these plantations, although safety equipment is provided by the companies, the foremen do not insist workers to wear the equipment. When I asked the companies they claimed that workers do not feel comfortable wearing safety equipment, hence, it hinders their productivity at work. In Estate Z, one of the harvesters told me that his head was once injured by the falling palm leaves. In these two plantations, maintenance workers are also not given aprons to help them cover their body from exposure to pesticides and fertilisers. These workers nonetheless wear masks, boots, and gloves. In Estate Z, workers even have to procure their working equipment on their own. When I asked the company, they told me that they used to provide this equipment in the past but then stopped doing it since they observed that workers do not have a sense of responsibility towards their working equipment shown by many cases of workers losing them. However, the company provides loans for purchasing the equipment.

One of the workers I interviewed in Estate Z was concerned about the pesticides left in her body after she does spraying activities. My interview with an activist from Sawit Watch, a non-governmental organisation actively engaged with social issues in the oil palm plantation sector in Indonesia, revealed a case in which pesticides hurt the female genitalia of a female maintenance worker in an
oil palm plantation. It was evident that BHL workers and even assistants had to arrange for their own safety equipment. In a similar vein, BHL workers in smallholder-owned plantations not only have to organise their safety equipment but also their work equipment and this causes a large cut into their wages.

Moreover, company-operated plantations offer health facilities, such as health clinics within the plantations, as well as references to local hospitals in case the health clinics cannot handle the situation. In Estate Y, these facilities substitute health insurance, whereas the company still provides insurance with regard to death and occupational accidents. While the SKU workers are entitled to health facilities in the case of accidents in the workplace, this is not the case for BHL workers and assistants. From my observation and interview, when occupational accidents occur, companies provide health facilities for BHL workers on the plantations operated by plantations companies. One SKU harvester in Estate X, who previously worked under BHL status, told me that based on his experience, the company will pay the medical treatment cost of a BHL worker if they are injured in the plantation. However, another BHL worker in the same estate revealed that the company does not provide health facilities to BHL workers. Studies (Chamim et al. 2012) confirm the exclusion of BHL workers from health facilities. Meanwhile, BHL workers on smallholders’ plantations did not mention that health facilities are provided by their employers. This is also the case for assistants.

The prevalence of child labour on oil palm plantation sector in Indonesia seems to be rampant. During my field visit to three plantations operated by plantation companies in Riau, I observed children workers in estates X and Z, as well as plantations owned by smallholders. The children that I observed come along together with their parents onto the plantations. Some of these children help their mothers collect brondolan, while others play around their parents’ workplaces. Together with their mothers, children serve as unpaid labour, contributing significantly to the performance of their fathers. As mentioned above, the practice of unpaid labour is triggered by a remuneration system applied particularly for harvesters. The presence of children on plantations also means that the children are exposed to the dangers at the workplace, as mentioned above. Despite the dangers on the plantations, workers who bring their children revealed to me that they do not worry about their children helping or playing on the plantations.

Besides children, teenage labour is also employed on the plantations. For example, in Estate Z, teenagers were found pouring pesticides into spraying tanks. Their parents are smallholders who reside outside the estate. They sometimes work on their parents’ plantations. Since Estate Z is a small plantation, they do not work there every day. Hence, they also work as BHL workers in Estate Z. In Estate Y, workers are only allowed to bring along their
children if they are over 17 years. Workers sometimes bring these children along during school holidays so that they can help them during harvesting activities.

There are some factors that might be at the root of the prevalence of child labour in this sector. First, as mentioned above, pursuing as many premises as possible has led harvesters to bring their children into their workplace. This is likely to happen when the mothers help the fathers in the plantations. This factor might intertwine with the absence of a day care facility at the workplace. Only one of the three plantations operated by plantation companies that I visited provides an organised day care. Workers are not allowed to bring children to the plantation; they have to take their children to the day care. Another plantation provides a women worker who is responsible for taking care of the children whose parents work in the plantation. But this is apparently not compulsory. I found a harvester on this plantation who also brought his children along to the plantation, even though he had the option of sending his children to be taken care by the woman assigned for this task. He told me that he decided to bring his children along because he was afraid that his children would quarrel with other children in the day care. It is worth noting that a day care only exists on plantations operated by plantation companies. Hence, harvesters working on plantations owned by smallholders do not have any other option but to bring their children along to the plantations. The third factor is whether or not schools are present on the plantations. From my observation, children in school age and where a school exists are likely to go to school rather than coming along with their parents to the plantations. I found a harvester in Estate X who brought two of his four children because the other two children went to school. However, when children reach a higher grade (i.e., high school), it is less possible for them to attend school, therefore, it is more likely, in most cases, that they work to help their parents. The workers who pour pesticides into spraying tanks are typically high school youths.

My field research revealed that trade unions exist in estates X and Y. There are two notable trade unions in the Indonesian oil palm plantation sector. FSP-BUN (Federasi Serikat Pekerja Perkebunan: Federation of Plantation Workers) organises workers in Estate X, while FSP-NIBUN (Federasi Serikat Pekerja Pertanian dan Perkebunan: Federation of Agriculture and Plantation Workers Union) covers workers in Estate Y. Workers in Estate Z do not have trade union. Casual workers on smallholder plantations are also not organised. The subsequent section on labour agency in oil palm plantation sector discusses the two trade unions further.

Many women work in oil palm plantations in Indonesia. They work either as paid or unpaid workers. As paid workers, women usually do maintenance activities, since harvesting is supposedly too physically demanding for women. Thus, there is a gender division of labour on oil palm plantations: harvesting is male-dominated, while maintenance is female-dominated. These women
workers might be SKU or BHL workers. As mentioned above, on plantations managed by plantation companies, most of the maintenance activities are carried out by BHL workers. Only Estate Y hires female workers for maintenance work under SKU contracts. The foremen, however, remain male workers. The companies claim that female workers lack leadership capabilities. In Estate X, women workers doing maintenance activities are the wives of harvesters responsible in that area. Women workers in plantations also undertake day care work, provided that a day care facility exists in the plantations. This is pretty straightforward, as gender discourse in society perceives women to be responsible for domestic and reproductive work. As unpaid workers, women work as helpers of their harvester husbands. I only found one case of a women worker helping her son in the harvesting activities. Again, this is attributed to the remuneration system. On plantations, these women collect brondolan and they push the carts full of FFBs from the place where FFBs are harvested to the point where they are loaded onto trucks. As for plantations owned by smallholders, women workers predominantly serve as unpaid workers helping their harvester husbands.

In terms of wages, female workers are in a more precarious condition compared to their male counterparts. Although working as paid workers, the fact that women are mainly BHL workers implies that they do not receive regular income. In Estate Z, the issue is not only that these BHL women workers do not receive regular income, but also work for too few days a month for a living wage. As mentioned, in Estate Y, maintenance workers are also SKU workers, which means that women workers on this estate are SKU workers. However, as mentioned above, SKU workers in this estate receive wages below the minimum wage for oil palm plantation sector in Riau. Furthermore, besides facing the issues related to minimum wage as mentioned in the previous subsection, SKU women workers are also disproportionately affected by the fact that decent living need indicators used to set minimum wage levels are gender-biased, and thus do not take into account the decent living needs of women. As unpaid workers, the income of female workers is tied to the income of their husbands and they play a significant role in increasing the income of their husbands. As mentioned, one harvester in Estate X told me that he would receive as much as 50% less income if his wife did not help him. A harvester in Estate Y revealed that he has to work until 3:30p.m./4p.m. if his wife does not come along. Similarly, a harvester in Estate Z has to work 1 hour to 1.5 hours longer if his wife does not help him.

Female workers have to carry a double work burden: work on the plantations and work at home. At home, they have to do household chores as well as reproductive activities. As such, every day, working women have to wake up earlier and go to bed later than their husbands. Most of the female workers I found only cook once a day because they do not have the time or energy. Only
one of the female workers I interviewed cooks twice a day. A study (Surambo et al. 2011) compared the activities carried out in a household where women also work in the plantations with a household where the woman stays at home. The study revealed that while the women in the former household do more activities than the latter household, there is no significant difference between the activities carried out by men in both households.

Women on the plantations, either doing maintenance or helping harvesters, are exposed to several dangers. In the maintenance activities, women are exposed to pesticides and fertilisers. As mentioned above, only Estate Y provides proper safety equipment for maintenance workers. The other two estates do not even provide aprons to maintenance workers. This means female workers in these plantations are more exposed to the use of pesticides and fertilisers. In spraying pesticides, women have to carry a spraying tank weighing around 10–15kg on their backs. In Estate Y, these workers have to refill their spraying tanks eight times a day. This means that they might carry 80–120 litre of spraying tanks in a day. Most women admitted that it was painful in the beginning but they got used to it after some time. There was only one woman worker who felt the activity was a physical struggle during the work. In Estate Z, women not only sprayed pesticides and spread fertilisers, but also loaded and unloaded fertilisers to and from transporting trucks. Sometimes women have to spread fertilisers, which is like powder, hence, can be easily inhaled. This poses an even higher risk factor for the health of women workers. Women as unpaid workers are in an even more vulnerable position than their paid counterparts. As helpers, again, women are not entitled to any safety equipment. While helping their harvester husbands on the plantation, most of women I met during my visits, did not wear helmets and only few of them wore boots. I even found a woman who wore her nightshirt when she helped her harvester husband on the plantation. The foremen seem to turn a blind eye on the occupational safety of these unpaid female workers.

7.1.2. Labour Situations in the Indonesian Automobile Sector

As discussed in Chapters 4 and 6, I looked at the case study of Company A, a Japanese-based assembler, together with its suppliers, namely, companies B (first-tier supplier), C (first-tier supplier), and D (second-tier suppliers). As mentioned in Chapter 6, Company A has factories located in Jakarta and Karawang. The company employs around 9,500 workers. Findings discussed in this chapter are based on interviews with one of the factory managers (7 June 2012) and trade unions (11 May 2012; 3 and 6 June 2012; 10 December 2013).

The factory in Karawang, which I accessed, manufactures multi-purpose vehicle (MPV) cars. At the time of the interview, the factory employed 2,951 workers. They consisted of 2,511 team members, 292 group heads, and 148 line heads.
Team members are the first and basic hierarchy in the career ladder. They are responsible for the operations on the shop floor. They must have qualified senior high school as an educational background. Once they are recruited, they receive training, followed by on-the-job development directly on the line process. A worker has to go through some assessments, basic training before climbing up the career ladder to become a leader (either as a group head or as a line head). Embarking on a new role, the new leader still has to perform on-the-job-development process directly on the line process. This shows the emphasis laid on the acquisition of skill sets.

Working hours consist of day and night shifts. Day shift spans across eight working hours starting from 07:15, while night consists of seven hours starting from 21:00. The working hours, along with the \textit{takt} time (production line speed or conveyor speed), are set and adjusted based on the volume of cars on demand. This eventually affects the numbers of workers in the factory, including the prevalence of contract workers in Company A. My interview with the representative from the plant-level union (with Khairul Anwar, F-SP LEM, Company A, 10 December 2013) revealed that there is no different working hours between contract and permanent workers. Some contract workers even manage to continue their formal studies while working in Company A. Nonetheless, the union also explains that the relatively younger workers are more eager to work longer hours. Considering that these workers are most likely newcomers in the company and are still in contract-based employment, it can be roughly concluded that contract workers work for relatively longer hours compared to their permanent counterparts. Furthermore, it is known that working overtime is common in Company A. In this case, the plant-level union usually puts pressures on the company to consider the adverse effect of regular overtime in the longer term.

With regard to other occupational health issues, the plant-level union explains that Company A offers \textit{balai karyawan} or workers’ hall, where workers can access a healthy breakfast. For night shifts, the union demands food supplements which are healthy and nutritious, rather than those that have high sugar and caffeine content.

According to the plant-level union, F-SP LEM, Company A (interview with Khairul Anwar, F-SP LEM, Company A, 3 June 2012) offers wages higher than the sectoral minimum wages. The wages received by contract workers are, however, at the same level as the sectoral minimum wage, as these workers are usually new entries, they receive wages lower than their seniors.

As mentioned above, Company A employs contract workers in order to adjust the production process and costs to demand volume. Nonetheless, Company A hires no outsourced workers. According to the plant-level union (interview with Khairul Anwar, F-SP LEM TMMIN, 10 December 2013), the composition
between permanent and contract workers is 55% and 45%, respectively. The national labour law allows contract-based employment only up to a maximum of two years. The union usually demands contract workers to be recruited as permanent ones once they finish their contract period, provided that they have good work performance. Once contract workers are promoted to be permanent workers, the union usually reminds these workers that the new role comes with more responsibility, and thus it is important to maintain a good work ethic. They also urge that the potentially recruited contract workers should be considered in the long-term perspective, for example, applicants who show future leader character. The interview also reveals that there is no difference between remunerations received by contract workers and those by permanent workers. Similar to the latter, the former is also entitled to workplace accident insurance.

As mentioned in Chapter 6, safety is one of Company A’s key concerns. Company A not only puts emphasis on the enforcement of safety measures in its own factories, but also in its suppliers’ factories. As discussed in the previous chapter, Company A conducts inspection towards its suppliers’ factories to make sure that safety measures are well handled by the suppliers. In the factory in Karawang, safety measures consider aspects from the person (e.g., knowledge, mind, sense), machine (e.g., machinery condition, safety device), and the environment (e.g., hazardous map).

Company A pays great attention to labour issues, not only related to its own workers, but also to its suppliers’ workers. This is not surprising, as the company is aware of how problems resulting from labour issues may disrupt the whole production process in the factories. The company even regularly conducts HR (human resources) forums to discuss these issues with the company’s suppliers. The forum only includes the HR departments of the suppliers and does not include trade unions. The interview with plant-level union, SP-LEM Company A, shows how they maintain networks only with other trade unions in the automobile sector.

The existence of plant-level union, SP-LEM Company A, indicates how the rights of workers to form a union have been acknowledged. According to the plant-level union, they are considered by the company as an equal partner. The union is affiliated to F-SP LEM, one of the three large federations in the Indonesian automobile sector. A collective agreement exists and is continuously negotiated every two years. The plant-level union actively negotiates for better working conditions as well as workers’ promotion. The plant-level union asserts that such negotiations are not strenuous, bearing in mind that Company A is aware of workers’ rights and needs. A regular meeting to discuss labour issues is held between the management of the company and the plant-level union every three months, or when it is deemed necessary. The union even argues that Company A is not only attuned to workers’ situations, but also to the social situations in the local surroundings of its offices and factories. During the
negotiation, nonetheless, the union has to take into account the company’s situation. At the time of the interview, there had been no conflict or dispute on the factory floors that disrupted the production process.

The plant-level union, SP-LEM Company A, argues that there is no difference between permanent and contract workers in terms of their memberships and treatment as members. The active participation of both types of workers does not seem to differ based on the type of employment. Although, as mentioned above, the fact that the relatively younger workers are more eager to work for longer hours has to be considered as a factor shaping the active participation of workers in the union. From the union’s perspective, it is important that workers have the awareness of why they essentially need to form or join a union. The union does not want workers who seek for union’s help only when a problem in the workplace occurs.

My interview with plant-level union, SP-LEM Company A (interview 3 June 2012) revealed how the management of Company A is concerned if the labour cost increases inconsistently, which has happened in recent years. If this were an indication of the future trend, it would then be relatively more beneficial for the company to mechanise the production process. Apart from technology development and higher quality demand, this seems to be one of the reasons for the company to shift to a more mechanised production process. Compared to Thailand, Indonesia is lagging behind in terms of infrastructure and bureaucracy. As such, labour cost is one of Indonesia’s keys to competitiveness at the moment.

The plant-level union explains that apart from going through the union, workers may contribute in terms of opinions, advice, suggestions, and even grievances through other channels made available by Company A. In this case, there is the regular quick forum (from five to ten minutes every morning), where workers may discuss any issue not merely those related to labour. There is another forum that takes place every three months, where workers may speak up. In this case, the company also pursues a bottom–up approach. These channels may partly help in preventing conflicts at the workplace. However, the union is also concerned that the discussions in the forum may raise broad issues, thus there can be a lack of focus.

As discussed in Chapter 6, Company B serves as a first-tier supplier to Company A. At the time of the interview, the company employed 374 workers, with half of them employed as contract workers. Although the customers of the company prefer that it keeps its ratio between permanent and contract workers to 50:50, it seems that this would be difficult to maintain considering the expansion that the company intends to undertake (interview with Tunjung, HR Department of Company B, 13 November and 3 December 2013). The reason for the company hiring contract workers is the consideration that the automobile
sector is a fluctuating industry. The company admits that these workers are first to be made redundant. Additionally, when a contract worker shows a poor performance within one year, the worker will be replaced. Nonetheless, the company also admits that the contract period allows them some time to observe the character and mentality of the workers, which would otherwise be more difficult to do.

The new entry position requires candidates to have a high school background. Graduating from vocational school is not necessary as the skills are acquired through on-the-job trainings (interview with Tunjung, HR Department of Company B, 13 November and 3 December 2013). The first level in the career hierarchy is the position of an operator, followed by a line keeper. The line keeper may then be promoted to be a team leader. The leadership career ladder continues up as the group leader, assistant manager, and ultimately leading to a managerial position.

Workers in the new entry position receive minimum wage-level salaries, together with meal, transport, and attendance allowances. Workers are also entitled to health insurance irrespective of their employment status. Salary level increases along with the position and responsibilities. Workers eventually receive a fair amount of payment due to regular overtime. From the company’s perspective, the amount should be sufficient for workers to have a decent living, provided the workers have a corresponding decent lifestyle. Company B asserts that workers, particularly the migrant workers, send some of their earnings to their family back home. This makes workers unable to have a safety net or emergency funds, which in turn pressurises the company to provide financial help when incidents (e.g., illnesses, accidents) occur.

As mentioned above, workers are offered transports allowance. The amount is relatively higher than other companies, although not higher compared to the large ones. Company B does not provide a pick-up bus for its workers. Workers are required to live nearby.

As in Company A, working hours consist of day and night working shifts. Morning shift starts at 8 a.m. and ends at 5 p.m., whereas night shift is from 8 p.m. to 5 a.m. There is a money incentive offered for working during night shifts. Workers may also need to work on Saturdays in case there is work pending from the night shift. Workers need to work overtime three hours a day on average. The company explains that overtime regularly takes place because they cannot make three working shifts due to the limited capacity of the machinery and supporting infrastructure.

Company B explains that it is sometimes difficult to regularly find capable supervisors (e.g., team leaders) for the night shift due to the shortage of workers in this position. This may leave operators working during the night shift without supervision. The concern of the company is how these workers may be less
disciplined due to the non-supervision (interview with Tunjung, HR Department of Company B, 13 November and 3 December 2013).

The shortage of supervisors, as Company B admits, is attributed to the lack of preparatory programmes offered by the company. In the meantime, the company is reluctant to hire applicants from outside the company for this position, and insists on recruiting internally. This is because it may then be able to follow the track record of the workers in terms of their attitude and personality. Additionally, the company also appreciates more the experiences of workers internally. As the company clearly admits, seniority plays an important role in this matter.

The promotion of contract workers to permanent ones is based on several factors unrelated to work performance alone (interview with Tunjung, HR Department of Company B, 13 November and 3 December 2013). The first factor is absenteeism, that is, whether a contract worker shows good work attendance. Company B also looks at how contract workers show their work ethic and good manners. Workers’ active participation in the programmes offered by the company, such as company outings, is another important factor considered by Company B. Moreover, contract workers are not allowed to get married during the first year of their contract period. Company B argues that single workers have fewer distractions than the married ones.

Though a plant-level union exists in Company B, it is not affiliated to any workers’ federations. The non-affiliation is actually appreciated by the company, who considered that it implied an external intervention. Following the existence of a union, a collective agreement was also present in Company B.

My interview with the human resources (HR) department of Company B confirmed that Company A holds regular HR forums with its suppliers, including Company B (interview with Tunjung, HR Department of Company B, 13 November and 3 December 2013). Through this forum, Company B can remain updated with labour issues, particularly those that are applicable to the automobile sector. Company A also often asks questions related to labour issues, such as outsourcing practices, the ratio between permanent and contract workers, and collective agreement between companies and workers.

On the issue of occupational safety and health, new workers are introduced to the basic safety measures applied by Company B (interview with Tunjung, HR Department of Company B, 13 November and 3 December 2013). Workers are required to wear safety equipment in the factory. Company B also offers annual medical check-ups for its workers. The company also attests that safety in the workplace is strictly monitored by Company A.

Apart from monitoring safety in the workplace, Company B explains that Company A trains it in ways to reduce costs through the former’s cost reduction programme. Cost-reducing measures are certainly related to most, if not all, of
Company B’s activities, including workers’ productivity. In this issue, Company B admits that regular overtime can have a negative effect on workers’ productivity, which eventually might prevent the efforts of the company to reduce costs.

Company C, which is also a first-tier supplier of Company A, employs 530 workers. Around 41% of these workers are contract workers. The company explains that the proportion of contract workers has increased (previously 30%) due to the ongoing development of a new product model that has a slightly different production process. Nevertheless, Company C does not employ outsourced workers after hearing about the mischief deals of outsourcing agents, and thus decided that it did not want to take the risk.

Applicants are high school or vocational school graduates. Company C argues that skill can be acquired by newly graduated workers within the first year of employment. Company C asserts that newly employed fresh graduates, who tend to be young and single, do not always show a good work ethic or tend to have a lack of discipline in the beginning. Career promotion is thus considered based on their work performance and work ethic. In the factory, permanent and contract workers of this company wear different colour uniforms as Company C feels that contract workers need to be more closely monitored than their permanent counterparts.

Working hours in Company C comprises two working shifts. The first working shift starts at 8 a.m. and ends at 5p.m. The next shift starts at 9 p.m. and ends at 5a.m. The company reveals that sometimes workers need to work overtime, usually at the end of the year or before the Lebaran (Eid al-Fitr) holiday.

Company C pays salaries at the sectoral minimum wage level. The company claims that it complies with the minimum wage regulations provided that it is followed by an increase in work productivity. If new regulations stipulate a higher amount, Company C investigates whether the increase is reasonable. Moreover, Company C also offers allowances, health insurance, and bonuses. Regarding allowances, the company provides attendance, transport, and night shift allowances. Company C also claims that it pays night shift allowance at a relatively higher rate to the amount paid by other companies. In collaboration with a hospital, Company C offers medical facilities to the workers.

A trade union exists in Company C. The union is affiliated to FSPMI (Federasi Serikat Pekerja Metal Indonesia: Federation of Indonesian Metal Workers’ Union), one of the two large workers’ federations in the automobile sector. As will be discussed below, FSPMI is considered a militant union. This would expectedly affect the militancy of the plant-level unions affiliated to the Federation. The trade union in Company C has been able to frequently negotiate a collective agreement with the company management. Up until now, there have been six collective agreements negotiated and agreed to in Company C.
As discussed in Chapter 6, Company D is a second-tier supplier of Company A. The company employs 1600 workers, with 1100 being outsourced workers. The rest are permanent and contract workers. For the company, workers are first hired as contract workers so that the company may have enough time to assess workers’ performance and work ethic. In other words, the contract period is considered by the company as a probation time.

Company D explains that the outsourcing practice is attributed to the demand by the local government and the industrial area managers to hire local people. As the company does not have the capacity to identify and prove the origins of all candidates, it relies on a labour broker or an outsourcing agent. The company is aware that the labour law does not allow outsourcing practices in the core business of a company. Still, Company D defends itself insisting that it has its reasons and is trying to meet the demand from the local actors. The company also argues that the local government agency for manpower often comes by to conduct inspections, as well as to monitor the outsourcing agents. Company D claims that it will not let outsourced workers to be exploited.

Meanwhile, Company D also admits that another reason for the company to hire outsourced workers is to avoid employing workers with a lack of work ethic. Furthermore, the company also realises the fluctuating demand coming from the customers. This seems to be an additional reason for the company to keep hiring outsourced workers, instead of appointing them to be permanent workers. Whenever the forecasts from the customers show a decrease, Company D communicates to the outsourcing agents who then evaluate the performance of their workers in order to decide who will be kept and who will not. According to Company D, workers who are not kept might be sent by the outsourcing agents to other companies who still need outsourced workers.

The company has always recruited through the same labour brokers. There are three labour brokers through which Company D recruits outsourced workers. One of these brokers is a local broker who has relations with the industrial area managers. The other brokers are Japanese-based brokers. Company D had worked with only the local broker in the past. Nonetheless, two years prior to the interview there was a pressure from the Japanese principal to recruit from more than one broker, as recruiting from multiple brokers is common in Japan. Thereby companies may compare and estimate the costs and productivity. As a

59 Company D explains that it has once attempted to conduct the recruitment process itself. The result, as the company claims, was a mess, as there were still applicants who turned out to be coming from other areas. Since then, company D has always gone through labour brokers whenever it has to hire local people.

60 Customers report their fixed forecasts every three-months. In addition, customers also prepare an annual estimation to capture the market demand in the subsequent year. If both the fixed forecast and annual estimation show a decrease, Company D expects costs cutting measures, which implies reducing the number of workers.
result, one Japanese-based broker, who has connections with the Japanese principal of Company D, came into Company D. This was then followed by another Japanese-based broker in the subsequent year.

Company D pays basic wages slightly below the regional minimum wage. Only when allowances (e.g. family members, meal, working shift, transport, attendance, length of service, annual allowances) are included, the total amount received by workers exceeds the regional minimum wage. Company D regards the amount stipulated in the minimum wage regulations as a wage ceiling for the company to calculate the salaries paid to workers.\footnote{Company D considers two things in calculating a wage raise—inequality level, i.e., the company’s minimum percentage for wage raise and the minimum wage level stipulated in prevalent minimum wage regulation. The percentage of minimum wage raise (should there be any) is considered by the company as the maximum percentage for the wage raise.} Moreover, not all of the allowances are received by workers in the form of cash. Meal allowance, for example, is provided by the company through in-house catering. Transport allowance is mainly given in the form of shuttle buses arranged by the company. On Saturdays the buses do not operate as not many workers have to work overtime on Saturdays. In this case, as well as in cases where workers live outside the coverage of the shuttle buses, cash is provided instead. Furthermore, Company D offers an allowance for workers who do not take their entitled leave in a year, while the leave remains valid within two years. This allowance is equal to one-month’s wage. The allowance is relatively new in the company (it has only been offered in the last five years) as workers, who were previously willing to work eagerly, as they were still single at the time, now have their own family, and thus are highly likely to take leave. Company D would certainly not prevent workers to claim their rights to take leave. Yet the company also appreciates those who show loyalty by not taking leave. Apart from offering health insurance, the company also cooperates with clinics located in the industrial cluster as well as hospitals in the area in order to provide medical facilities to the workers.

Company D claims that outsourced workers receive the same remuneration with those received by permanent and contract workers. Outsourced workers also do not get charged by the outsourcing agents, as it is company D who pays the outsourcing fees. The company explains that any outsourced workers may report any misconduct of the outsourcing agents. Nonetheless, as the company explains, considering that the majority of the outsourced workers are still single, they are not entitled to certain allowances, such as family allowance. Moreover, while permanent workers are entitled to private health insurance arranged by the company (which gives workers access to hospitals in the area), the outsourced workers are entitled only to Jamsostek (Jaminan Sosial Tenaga Kerja: Worker Social Insurance). This is not surprising, as outsourced workers are actually the employees of the outsourcing agents, hence, it depends on what kind and how

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much remuneration can be provided by the agents. Company D, however, states that it may ask the agents whether or not the remunerations have been paid to the outsourced workers.

Working hours consist of three working shifts: morning shift, afternoon shift, and night shift. Employees working during the afternoon and night shift receive extra food, such as milk and bread.

At the time of the interviews, there was no union at Company D. A plant-level union was being formed and would be affiliated to FSPMI, one of the two large workers’ federations in the automobile sector. The interview revealed that there was a sweeping carried out by FSPMI a few months prior to the interview (interviews with Denny, HR Department of Company D, 16 and 29 May 2012). The sweeping was actually regarding minimum wage, but FSPMI also found out that there was no union at the company. The formation of the plant-level union at Company D shows that this attempt of FSPMI was regarded as more than successful. Company D also became aware of the benefits of union existence. Nonetheless, the company still hopes that workers may turn to the company first whenever there is a problem regarding labour issues. The company puts emphasis on good communication and transparency built between workers and the company. While the company welcomes the union, Company D is also concerned that the affiliation with the union would be a bad influence on the workers. The company may view the militancy of FSPMI (as shown by strikes, demonstrations, and sit-ins) as a negative influence, which could eventually lead to instability in the workplace.

There are two main reasons for the prevalence of contract workers in the automobile sector. First, lean manufacturing implies the dependence of production activities on demand volume. As discussed earlier, it means adjusting working hours, takt time, and the number of workers required. Contract workers are employed when increased capacity is needed. When the demand volume decreases, it is relatively easier to make these workers redundant. Especially when there is an economic crisis, these workers are first to be laid off. Second, as discussed above, the skill acquirement is concentrated on an on-the-job development process performed by workers directly on the line of process. It takes time for workers to acquire the necessary skill and, hence, companies also need more time to assess workers’ performance. This timeframe is even longer than the legally allowed probation period. As such, automobile companies make use of contract-based employment as a way to resolve this issue. This may also be another explanation for the relatively higher share of contract workers hired in assembling companies, as the required skills are presumably higher than those in supplier companies, and therefore more

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62 Labour law stipulates that probation period lasts for three months at the longest.
probation time is needed. Meanwhile, as discussed above, there is also a supplier company that uses contract employment as a way to assess workers’ work ethic. Apparently, issues such as absenteeism and lack of work discipline are quite common in certain automobile companies (interview with Agus Zainal, F-SP LEM Karawang Regional Office, 11 May 2012; interviews with Denny, HR Department of Company D, 16 and 29 May 2012). Employment status aside, there is no difference in remuneration between contract and permanent workers. Contract workers may, however, receive wages lower than those of their permanent counterparts because the former tend to be the new entry and thus start from a lower wage level than that of their seniors (Interviews with F-SP LEM North Jakarta region, 3 and 19 June 2012). Interviews with unions reveal that there is no difference in terms of active union participation between contract and permanent workers, although unions are aware that contract workers, who tend to be younger, are more willing to work overtime or for longer hours.

Another main issue in the automobile sector concerns outsourcing practices. Ever since the Manpower Act (Law No. 13/2003) stipulated outsourcing issues, rampant outsourcing practices have been reported. The Law actually states which business activities in which outsourcing practises are allowed. According to the interview with trade union F-SP LEM North Jakarta office (interviews 3 and 19 June 2012), violations on this regulation mainly occur in supplier companies and these are usually the unruly ones. The lack of monitoring from the part of the government exacerbates the situation (interview with Agus Zainal, F-SP LEM Karawang, 11 May 2012). In some cases, although companies take over the outsourcing costs by paying the fee to the outsourcing agent or labour broker, the latter continues to deduct the amount from outsourced workers’ wages (interviews with Tunjung, HR Department of Company B, 13 November and 3 December 2013).

The third main labour issue in the automobile sector is the minimum wage. The stipulated minimum wages were previously lower than the decent living needs. The decent living need indicators use the single male worker as a standard and do not include all of the key living staples. This has been one of the key issues addressed by labour unions in the automobile sector. It was only at the time of the interview that the minimum wage level corresponded to the decent living need calculation (interviews with F-SP LEM North Jakarta office, 3 and 19 June 2012). Nonetheless, minimum wages in the automobile sector are relatively higher compared to those in other sectors since it is considered as a skill-intensive sector (interview with Agus Zainal, F-SP LEM Karawang Region, 11

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63 Apart from the case of Company A, there is also another large Japanese-based assembling company that employs a relatively higher portion of contract workers compared to that of supplier companies (interview with Agus Zainal, F-SP LEM Karawang Region, 11 May 2012).
May 2012). As revealed in the case study above, it is only Company D that pays wages below minimum wage, while companies A, B, and C comply with the minimum wage regulation.

There is also a perception that Japanese-based automobile companies usually comply with the national regulations (interview with Tunjung, HR Department of Company B, 13 November and 3 December 2013; interviews with Denny, HR Department of Company D, 16 and 29 May 2012), while other foreign-based companies might not always do so. Some unions confirm this (interviews with F-SP LEM North Jakarta office 3 and 19 June 2012; interview with Agus Zainal, F-SP LEM Karawang region, 11 May 2012), while others are sceptical of the argument. The main reason for the compliance is certainly to prevent any disruption to the whole automobile production network.

If we compare workers’ situations in the automobile sector to those in the oil palm plantations, the above discussions show how workers in the automobile sector are better off. Table 7.2. summarises the comparison. With regard to trade liberalisation, the competitive pressures have been accompanied by rampant practices of illegal outsourcing and misuse of contract employment in the automobile sector. Again, the institutional setting (i.e., the 2003 Manpower Act) has contributed to this situation.

Meanwhile, casual employment is not a new thing on the oil palm plantations. As will be discussed below in the section on labour regime on plantations, the history of oil palm plantations shows the employment of (mostly migrant) contract labour. The continuous occurrence of casual employment shows how trade liberalisation articulates with the existing labour regime on the plantations. The colonial despotic regime on plantations is used to justify the poor working conditions resulting from the competitive pressures. Furthermore, trade liberalisation intensifies this situation, shown by the incidence of unpaid family labour on the plantations involving female workers and child labour.

<table>
<thead>
<tr>
<th>Workers’ Situations</th>
<th>Automobile</th>
<th>Oil Palm Plantation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>- Apart from permanent workers, contract workers are one of the important backbones in the lean manufacturing</td>
<td>- Casual labourers are common. - On plantations operated by companies, casual employment is mainly in maintenance activities, and to some extent in Oil</td>
</tr>
<tr>
<td>Workers’ Situations</td>
<td>Automobile</td>
<td>Oil Palm Plantation</td>
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<td></td>
<td>system.</td>
<td>harvesting activities.</td>
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<td></td>
<td>- Following the 2003 Manpower Act, (illegal) outsourcing practices are rampant, particularly in the second-tier suppliers.</td>
<td>- On smallholder plantations, workers are generally on a casual employment basis.</td>
</tr>
<tr>
<td>Wages</td>
<td>- Above the minimum wage level.</td>
<td>- Permanent workers in plantation companies receive basic wages and <em>premium</em>. Basic wages in some companies are lower than the minimum wage level.</td>
</tr>
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<td></td>
<td>- The regulated minimum wage.</td>
<td>- Casual labourers receive higher than minimum wage level. However, the employment status implies that this is not a regular income.</td>
</tr>
<tr>
<td>Working hours</td>
<td>- Working hours consist of at least two working shifts, each covering between 7-8 hours.</td>
<td>- Normally between 7-10 hours a day</td>
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<td></td>
<td>- Overtime is common.</td>
<td>- Work on plantations is physically demanding.</td>
</tr>
<tr>
<td>Occupational safety and health</td>
<td>- Safety on the production line is significantly emphasised.</td>
<td>- Workers on RSPO-certified plantations are provided and required to wear occupational safety and health equipment, while other plantations do not take this issue seriously.</td>
</tr>
<tr>
<td></td>
<td>- Companies usually provide access to local clinics or hospitals in case of workplace accidents.</td>
<td>- Casual workers are not provided with occupational safety and</td>
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</tbody>
</table>
Workers’ Situations | Automobile | Oil Palm Plantation
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Child labour | - No child labour issue. | - Harvesters are sometimes required to bring assistants, which involve unpaid family members, including child labour.  
- Only the RSPO-certified plantations prohibit child labour.

Gender issues | - The sector is a male-dominated industry. Female employment is mainly found in certain production segments that require nimble fingers. | - Female workers mainly work in maintenance activities. Without proper occupational safety and health equipment, female workers are exposed to dangerous chemical elements.  
- Unpaid female workers are found in harvesting activities, usually helping their harvester husbands.

Freedom of association | - Unions exist in some automobile companies.  
- Some unions are affiliated with a workers’ federation, while others choose to be unaffiliated with plant-level unions. | - Two large unions on oil palm plantations in Sumatra. Both appear to take the employers’ side.  
- Casual workers are largely not organised.

### 7.2. Labour Control Regime and Labour Agency in the Oil Palm Plantation and Automobile Sectors

As mentioned in Chapter 3, one of the salient factors in the attempt to analyse labour agency is to understand labour control regime. Here the concept is crucial for us to examine how the regime facilitates and/or limits labour agency. However, it is worth mentioning that this involves a dialectic process. In this sense, labour agency also actively shapes labour control regime.
Chapter 3 discusses several aspects essential for the analysis of labour control regime. The first aspect involves the production and work processes in the workplace. The discussions above on workers’ situations are an important initial step in this analysis. The second aspect refers to labour reproduction within the local labour market.

7.2.1. Labour Control Regime in the Indonesian Oil Palm Plantation Sector

In order to understand the production and work processes as well as labour reproduction in the oil palm plantation sector, it is of salience to discuss the history of the palm oil sector. As mentioned in chapters 2 and 5, the oil palm plantation sector in Indonesia has roots dating back to the colonial period. During this period, the Dutch supplied cheap labour from Java Island to the oil palm plantations in Sumatra Island. These workers were called kuli kontrak, which literary means contract labour. Some scholars prefer to use the term ‘coolie’ for describing kuli kontrak. In this context, coolie refers to Asian labour, ‘nearly always Javanese origin, contracted for a period of three years to work for an expatriate employer in the Outer Islands of colonial Indonesia’64 (Breman 2002: 333). Indeed, coolies were the initial workforces in the plantation areas in Sumatra (particularly in Deli; ibid.). In the 1920s, around 60% of or coolies came to East Sumatra (ibid.: 334). They were mostly men and lived collectively in barracks on the plantations (Killias 2009: 153). During this period, palm oil demand from Europe increased, which paved the way for the expansion of oil palm plantations in the Dutch East Indies (what Indonesia was called during the Dutch colonisation) from 10 to 64 estates within 15 years (1925–40; Chamim et al. 2012: 33). Kuli kontrak or coolies were poorly paid and their remuneration was barely enough for survival (ibid.; Breman: 334). A labour contract between coolies and their employers applied until the end of the contract period (Breman: 334). According to Coolie Ordinances,65 if a coolie dropped off the contract during the contract period, the coolie could be prosecuted or convicted under criminal law (ibid.). All these show how colonial despotism occurred as a regime of control on the plantations during this period.

Based on the above description, the concept of coolie seems to be an important start to understand labour relations in the oil palm plantations sector in Indonesia. The term coolie was apparently widely known in describing certain labour relations during the 19th century. While it was mainly attached to the

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64 According to Breman (2002: 333), prior to the Javanese people, coolie comprised Chinese people recruited in Malaysia or in China. They were then replaced by Javanese, partly because the latter were considered cheaper and docile, despite being less diligent.

65 Breman (2002: 334) argued that Coolie Ordinances were introduced to mobilise cheap workforces with terms that from the beginning did not provide room for coolies to resist the authority.
colonial practices and involved Asian labour during that time, in some cases, the term also reflected labour relations in certain sectors and embraced non-Asian labour during that time, for example, the labour relation in British shipping, which also involved the British crews (Balachandran 2011: 267). The term of coolie illustrates a labour relation that is based on coercion as well as economic exploitation, and features institution that legitimise and stabilise such labour relations (ibid.: 269; Behal 2010). By examining labour relations on tea plantations in Assam, Behal (2010) argues that the term coolie was used to show the inferiority of the labourers and the authority of planters, who were mainly Europeans. According to Bush (2000, as cited in Killias 2009: 152), such indentured service was aimed at providing cheap and well-controlled labour following the dismantling of slavery.

Employment practices on the plantations during the colonial period were regulated through Koolie-Ordonnantie. Workers covered by this regulation were called contract-koolie, which referred only to migrant workers, coming either from abroad or from another island (Said 1977: 64). The contract lasted for three years. In reality, however, there was no guarantee whether workers could easily be free once the contract phased out (ibid.: 76). This regulation required plantation owners to provide housing and health facilities. The regulation also covered wage reduction if a worker was ill or absent. It also stipulated what were considered violations, and laid out sanctions to such violations. The regulation was also called Poenale Sanctie, as workers could be physically punished if they violated (ibid.: 64). Before the Koolie-Ordonnantie came into place, the relation between plantation owners and labour was based on exploitation and vigilantism (ibid.: 69). The exploitation continued as Koolie-Ordonnantie was passed; in fact, it was even worse, as the regulation was perceived to legitimise the exploitation that occurred in the earlier period (ibid.). The terms often used to reflect exploitation and vigilantism on plantations is negara dalam negara, which literally means ‘a state within a state’. As illustrated obviously in the terms, plantation companies would set any rule that was beneficial for them, regardless whether or not this rule complied with national regulation. The geographical character of plantations also sustained this practice, as plantations were often remotely located. Like industrial estate companies, plantation companies sometimes sought help from local police or military units to secure the plantations, especially when a conflict occurred (interview with SBPI, a plantation workers’ union, 8 November 2013).

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66 Koolie-Ordonnantie went into effect in 1880.
67 This echoes what Nieuwenhuys (1978: 346-347, as cited in Stoler 2011) argues on Deli, where the Dutch influence on plantations in Sumatra started. According to him, ‘Deli was an island, some said a society within a society, a particular form of European society, wholly different from that in Java’.
While exploitation in terms of physical punishment does not exist anymore on the plantations, economic exploitation persists. During the colonial period, plantation workers were paid poorly. The current situation does not differ very much. As discussed in the previous section, plantation workers receive low wages. During the colonial period, poor wages left workers with no other option but to gamble, while their wives took on to prostitution (Said 1977: 79). Instead of working out ways to come out of their poor situation, gambling actually put them into debt. During that time, foremen opened small shops where their underlings were required to buy goods, despite the high prices (ibid.: 80). This reflects labour control that extended to consumption practices, a mechanism that manifests on the plantations nowadays in different ways. One of the observed oil palm estates in Riau does not provide plantation workers with working equipment. Instead, the estate provides credit for workers to buy the equipment, without which workers are not able to access the equipment immediately due to the expensive price of the equipment. My interview with the estate manager revealed that this is because workers seem to be careless in maintaining the working equipment (interview with M estate, 20 April 2012). Thus, forcing workers to buy their own working equipment is expected to create a sense of ownership, which in turn induces workers to be more careful in maintaining the equipment. The practice of providing credit for consumption is rampant on the plantations. Workers usually purchase electronic equipment and motorcycles through credit due to their low wages (interview with Sawit Watch, 20 June 2012). Motorcycle is an important transportation mode on the plantations, particularly if the estate covers a large area. Since oil palm plantations involve monoculture practice, it is difficult for workers to grow their own food crops. Some of the local people previously involved in nucleus estate schemes, through which they received 0.5 ha for growing food crops, choose not to do so because it is more attractive to grow oil palm trees on this plot. Furthermore, the fertility level of the soil in Riau province hinders the cultivation of food crops, and the province relies mostly from the neighbouring provinces (e.g., West Sumatra and North Sumatra) for its food supply, especially rice and vegetables. All these factors make it more difficult for workers to apply semi-self-subsistence practices, hence rely on the market for food supply in their households. The female workers on the plantations either work as maintenance workers or as helpers to their husband harvesters. All this demonstrates how workers completely rely on their wages from plantation companies to sustain their livelihoods.

As mentioned, plantation companies were obliged to provide housing for workers under the regulation during the colonial period. This practice persists up until now due to the plantations’ geographical character. It also creates a blurred line between working and living spaces, making it easier for companies to control workers. Schools and religious facilities (mosques and churches) are also
provided by companies. These institutions can be used by companies to obtain workers’ consent. Plantation companies may also apply other mechanisms, from dismissal threats to installing spies within workers (Lumbanraja 2011: 56).

Plantations in Sumatra during the colonial period were originally developed in Deli. There were three important commodities at the time, namely, tobacco, rubber, and oil palm. All of them were exported to the European market. Tobacco and rubber commercial plantations were started earlier than those of oil palm. Scholarly resources on plantations in Deli do not distinguish between the plantations of the three commodities. As such, it can be assumed that practices occurring on the three types of plantations are not much different. Having difficulties in finding local labour resources in the beginning of the development of the commercial plantations, plantation companies resorted to Chinese labourers sourced from Singapore and Penang (Said 1977: 30-33). Over time, Indian workers were also employed. These workers were sourced through labour brokers. As Chinese workers were considered to be getting more expensive, plantation companies decided to hire workers from Java (Stoler 2011: 30). These Javanese workers were also brought by labour brokers, as well as by the foremen on the plantations through kinship relation or hometown networks. Those who were recruited through labour brokers received wage cuts to pay for the recruitment fee.

These recruitment practices remain on oil palm plantations nowadays. I found a labour outsourcing practice on one palm oil mill (interview with staff of palm oil mill Y, 26 April 2012) whereby plantation workers are recruited through their family or relative networks by someone already working on the plantations (usually the foremen). The recruitment system through the foremen gives an advantage for the companies in terms of labour control, since the foremen’s performance is at stake. As such, foremen tend to make sure that the workers they recruit are disciplined, well behaved and work hard (interview with chief assistant of Estate X, 3 April 2012). Colonial-era plantations recruited Chinese workers, as they were perceived to be hard workers despite being relatively more expensive. Javanese workers were also perceived as hard workers, in addition to being cheaper and relatively submissive.68 This practice of how different ethnic identities are played out still exists on the plantations nowadays. Oil palm plantations in Sumatra during the post-independence period also

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68 It is worth mentioning that initially the Javanese workers had been perceived as lazy and not suitable for working on the tobacco plantations, which were the predominant plantations in Sumatra during the Dutch colonialism. According to Jan Breman (1989: 60–62), the change of this perception has to do with several aspects, namely: (1) uncertainty of the future labour supply from China; (2) the introduction of the new cultivation techniques for which Javanese workers were mainly involved; (3) shift of the method of wage payment to daily wage; (4) lower cost of contracting workers from Java; (5) end of open-door policy, which had facilitated the sourcing of Chinese workers.
employed migrant workers from Java owing to the transmigration programme undertaken during the 1970s and 1980s. My interview with one plantation company revealed that they prefer to hire Javanese and Bataknese people as they are considered hard workers and relatively more disciplined (interview manager of Estate Z, 19 April 2012). It also seems that the type of job taken by certain ethnic groups is reinforced by the perception of those people, for example, the Javanese are more suitable to work as labourers, while the Minang prefer to take jobs as merchants. The recruitment process on plantations apparently follows these perceptions.

The local people surrounding plantations may consist of ‘pure’ local people, migrants, or a combination of the two. The latter come from other provinces or other islands in the search of better livelihoods. As mentioned earlier, the history of oil palm plantations in Sumatra involved workers supplied from Java. Some of these workers returned to their hometowns, while others chose to stay. The descendants of the latter group constituted a part of the local people surrounding oil palm plantations in North Sumatra. Migrants living nearby plantations in the other provinces came partly due to the government programmes in the late 1980s that combined transmigration with the nucleus estate scheme. The influx of these migrants creates tension between the ‘pure’ local people and the migrants (Chamim et al. 2012: 83). Meanwhile, the relationship between the local people and workers depends very much on the relationship between the local people and the plantation companies. The land conflicts that often occur between the local community and plantation companies may affect the relationship between the local people and plantation workers (ibid.: 41). It is worth mentioning that casual workers employed on plantations are usually supplied from the surrounding community. The conversion of local areas into oil palm plantations also means taking away the source of livelihoods of the indigenous people. They sometimes have no option but to work on the plantations as casual workers (ibid.: 198). Additionally, migrants involved in the nucleus estate scheme sometimes end up working as labourers on company-operated plantations if they do not successfully manage the plots entitled to them (interview with P, a former migrant involved in a nucleus estate scheme, 11 April 2012).

The local government also plays an important role in shaping the regime in the oil palm plantation sector. This is evident from the relation that the local government has with plantation companies, as well as from the extent the local government effectively carries out its function. It is widely held that the local government has close ties with plantation companies (Kleden 2011: 21; Dewi 2013; Chamim et al. 2012: 90). An interview with the local government agency for estates in Riau province reveals how the governor maintains relationships with the heads of plantation companies (Interview with local government agency for estate, Riau province, 4 May 2012). Regional autonomy policy has
also deepened such relationships. This situation paves the way for political collusion with plantation companies who seek to gain permits. This context is given further impetus as the regulation on the direct election of local regents was subsequently passed. This regulation means that people residing in a certain regency directly vote for their own regent. Money politics is certainly involved in raising votes. It is argued that the candidates of regents in an area where oil palm plantations are located need to find sponsors from plantation companies in order to secure funding. As a concession, these candidates have to issue permits for opening oil palm plantations once they get the regency office. In Riau, the province where I visited, there are many cases that came into public about regents being sent to jails due to the false permits they had given to plantation companies. These allegations often occur after the regents leave the office. The collusion between local government and plantation companies has been considered an open secret in the sector. In terms of carrying out its function, the local government of Riau province also claims to have a lack of resources of labour inspectorates (interview with local government agency for manpower, Riau province, 2 May 2012).

7.2.2. Labour Control Regime in the Indonesian Automobile Sector

In analysing labour control regime in the Indonesian automobile sector, it is worth underlining that Japanese-based automobile companies dominate the sector. The case study in this thesis focuses on Company A, a Japanese-based company that also introduces the distinctive lean production system. The production system inevitably shapes the production and work processes in the auto factories. The lean production system is essentially embedded in the Toyota Production System (TPS). The TPS is a part of an overarching concept of the ‘Toyota Way’, which reflects the managerial approaches and production system of Company A (Miroshnik and Basu 2014: 24). The TPS has three important foundations: (1) kaizen or continuous improvement; (2) elimination of waste; and (3) respect for humanity.

One of the key principles of the Toyota Way is continuous improvement (kaizen).69 This refers to efforts to constantly improve the production system aiming at perfection (Miroshnik and Basu 2014: 25). The distinct approach here is to include everyone through a mechanism called quality control circles (QCCs). In the QCCs, operators (and their leaders) meet and discuss improvements related to their tasks or others in the production process. The TPS adopts process control, rather than product control. Process control is intended to ensure zero defects. This allows companies to reach higher productivity

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69 Literature on TPS sometimes refer to the concept of ‘lean culture’ (Ansuini 2012: 113). It consists of four characteristics: (1) continuous improvement; (2) employee recognition; (3) promotional activities; and (4) mutually established goals.
The control also means that everyone is responsible for the quality assurance. As per QCCs, operators may discuss defects as well as suggestions on how to solve the defects. As an institution appears in the factory level, the QCC serves as an all-encompassing control that structures ‘humanware’ for the company’s benefit (Lilrank and Kano 1989). It is argued that these mechanisms give the opportunity for workers to have some extent of production control (Nakamura 2004: 209). The QCC operates as ‘a hybrid organisation’, which should be self-governing while at the same time endeavours to achieve the company’s goal (Lilrank 1995: 979). As it is not part of the hierarchal structure of the company, the QCC is an informal organisation, and thus is not subject to command or control (ibid.: 981). It is based on voluntarism, not in the sense that workers can choose to participate or not, but rather in the sense that workers enjoy freedom of expression. This is designed to partly overcome the characteristics of Japanese companies that are hierarchically organised. At the same time, the company provides strict management guidance in order to ensure that QCC is operating to achieve the company’s goal (ibid.: 982). As a model of workers’ participation, QCC deserves a careful analysis in terms of how power is exercised (Kissler 1994).

In Company A, there is no overtime work on Wednesdays. Instead, workers are required to assess and reflect on their tasks on the factory floors. The main question here is to retrospect whether there was a part of the tasks where costs could be reduced or productivity increased. In other words, workers were required to come up with ideas to continuously improve the production process. Excellent ideas are then brought up to the QCCs. The company usually holds competition between QCCs once or two times in a year, aimed at improving the quality of X company’s products. Additionally, there are also daily quality meetings and suggestion plans. The former is held daily after the production shift in order to discuss problems occurring that day that affect QCSDM (Nakamura 2004: 208).

Similar to Company A, Company B also have QCCs to collect ideas from workers (interviews with Tunjung, HR Department of Company B, 13 November and 3 December 2013). Company A sometimes invites Company B to send them the ideas collected from Company B’s workers. Ideas vary from costs-saving tasks to how to create a comfortable workplace.

Womack et al. (1990, as cited in Castree et al. 2004: 137-138) introduce the term of lean manufacturing as a production system originated from post-war Japan. The key aspect in such a manufacturing system is flexibility practices in order to achieve economies of scale. This includes an operation management system that has the capacity of adjusting the products as a response to changing market demand (Miroshnik and Basu 2014: 22). The flexibility practises entail functional, numerical, and temporal flexibilities. Functional flexibility implies job rotation and multi-skilling, while numerical flexibility attributes to the
existence of contract, part time, and casual workers. While Japanese-based auto companies put emphasis on long-term employment (Miroshnik and Basu 2014: 124), the presence of contract employment as another backbone of the production system shows dual system of employment embraced by these companies. Temporal flexibility reflects working shifts and overtime. The previous section showed that these work situations are confirmed in the Indonesian automobile sector. As discussed in the case study in the previous section, the employment of contract workers indicates the reciprocities between functional and numerical flexibilities. Apart from making it a buffer in case of low market demand, companies use contract employment as a way to allow workers sufficient time to acquire the required skills, considering that production system requires multi-skilling and job rotation.

The relationship between the management of the companies and the workers is seen as akin to a parent–child relationship in some of the auto companies (interviews with Manager of Company C, 14 November and 17 December 2013), while in others, workers represented by a workers’ union are considered equal partners. The latter can, however, be understood as a union serving as an extended arm of the company. For instance, the union constantly reminds workers to work dutifully (interview with F-SP LEM Company A, 10 December 2013).

The parent–child relationship embodies a patronising relationship. Workers or workers’ unions are seen by companies as children to be protected from external bad influences (interviews with Denny, HR department of Company D, 16 and 29 May 2012). Workers are also expected to have some sort of loyalty to the company (ibid.). This family-like relationship may then undermine covert complaints or grievances of the workers. Plant-level union in Company A, SP-LEM Company A, however, argues that such a relationship may actually help companies grasp workers’ complaints or grievances from within (interview 10 December 2013).

One argument holds that the family-like relationship has roots in the Japanese national culture (Miroshnik and Basu 2014: 34). Here, the culture is associated to a rice-growing society, which features cooperation between a large number of people. Another related argument highlights the high degree of paternalism in Japanese society as something rooted since the feudal period (Farley 1951: 95). Meanwhile, the explanation for parent-child relationship could also be found in the history of the industrialisation in Japan (Miroshnik and Basu: 35). During the Meiji period, young people from poor families were purchased by factory owners, who then had complete control over the young people’s lives. Later on, facing labour shortages, Japanese-based companies allowed the workers to have a certain amount of freedoms, and use the national culture as a way to achieve workers’ commitment. It is also argued that employers used the spirit of paternalism to counteract labour unrests that occurred during post-war Japan
(Farley 1951: 101). These aspects of national culture and historical background of Japanese industries intertwine with the production system. For instance, just-in-time deliveries are grounded on the engagement and commitment of all levels of the organisation (Fukamizu 2012: 56). However, a contending argument associates the Japanese post-war economic success to employers’ pragmatic considerations, rather than to the spirit of paternalism (Tipton 2008: 105). Here, employers adopted an employment system that relied on wages and promotions based on seniority, quarterly bonuses, welfare facilities, and lifetime employment. The introduction of the so-called Japanese employment system was the result of industrial conflicts of the late 1940s and 1950s (ibid.: 171, 191). This argument supports the broader claim of how the lean manufacturing system, and specifically the TPS, is a product of post-war class struggle in Japan.

All factories of the auto companies subject to my case study are located in industrial estates in West Java. Indeed, West Java hosts a large number of industrial estates, thanks to its geographical proximity to Jakarta, the capital city of Indonesia. This also means better access to a potential domestic market as well as a port for exports. Intertwining factors of industrial development policy in the 1970s-1980s, and the suburbanisation process in Jakarta Metropolitan Region (JMR) in the late 1980s contributed to the presence of industrial estates in West Java (Hudalah and Firman 2012). While it was the government that initiated the development of industrial estates in this area, most of these industrial estates are currently managed by private actors. Some of these industrial estates accommodate certain group of investors, such as Japanese and Korean investors. Indeed, Japanese-based auto companies perceive the Indonesian cluster policy as an impetus to strengthen networks between Japanese investors and their *keiretsu*70 (Irawati 2012: 64). Of the auto companies subject to my study, one factory is located in the industrial estate that mainly hosts Korean investors, while the rest of the factories are located in industrial estates that mainly accommodate Japanese investors. While most of the industrial estates are intended for manufacturing activities, some of them extend their functions to create towns (ibid.; 44-45). In carrying the residential function, the latter accommodates expatriates, and the upper- and middle-class society. It is argued that this paves the way for income inequality in the areas, typically shown by the existence of gated community consisting of these groups of people (ibid.: 46).

The industrial estates strive to cater to the needs of investors operating in their factories in the estates. They provide the necessary infrastructure, such as energy supply, road and telecommunication networks, water waste treatment plants, as

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70 As discussed in Chapter 6, the *keiretsu* system involves a tight, long-term, and stable relationship between Japanese auto companies and their suppliers, which serves as an important foundation for lean manufacturing system adopted by Japanese auto companies.
well as security personnel. The key issue here is how the geographical context of industrial estates plays a role in shaping labour control regime in the automobile factories. In this case, we shall focus on the industrial estate companies as well as local people surrounding the industrial estates. In terms of labour issues, discussion forums between companies and workers represented by mainly trade unions sometimes take place in industrial estates. An interview with one of the trade unions in the automobile sector demonstrated this way of ensuring a stable industrial relation within industrial estates (interview with FSPMI, 6 June 2012). Security guards employed within the industrial estate areas sometimes serve as a mechanism to ensure conducive manufacturing activities. This is particularly important during the incidents of workers’ strikes, sit-ins, or factory sweeping. It is worth mentioning that since 2011, workers target mainly industrial estates as strategic strike sites in order to enforce their demands, ranging from labour-related issues (e.g., minimum wage, outsourcing practices) to national issues (e.g., social security system). Factory sweeping operations called *grebek pabrik* are conducted by workers in order to warn companies that implement illegal outsourcing practices. In such actions, workers rally from one factory to another, calling other workers to join them to strike. In so doing, workers sometimes force companies to open factory gates and stop their production operations. Facing such actions, industrial estate companies sometimes ask for help from local police and even the military. The involvement of the military during industrial conflicts can be traced back to the situation during the authoritarian regime. My interview with a supplier company showed how the company felt relieved with a new chief of the local police unit, as the unit became stricter under his control (interview with Tunjung, HR of Company B, 3 December 2013). The company feels that the local police unit was previously more flexible in handling workers’ demonstrations.

Migration and ethnicity play an important role in labour regime in the Indonesian automobile sector. Workers in the automobile factories are either local people or migrants mainly coming from other areas in Java. Company B asserts that workers coming from the local area have relatively less work ethic than workers from other areas in Java (interviews with Tunjung, HR Department of Company B, 13 November and 3 December 2013). According to the company, when fired, the local workers do not suffer as much difficulties as those facing migrant workers. The latter cannot easily survive without being employed, whereas the former can without difficulty return to their parents. This, in turn, shapes the attitude of these workers at the workplace.

The rapid development of industrial and automobile clusters in Cikarang, Karawang, and other areas in West Java has led the local government to put

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71 The period of the Suharto administration (1966–98) is usually described as the authoritarian regime era, as the government exercised tight controls over many aspects, including industrial relations.
pressures on companies to hire more local people. These pressures are considered to be one of the reasons for the rampant practices of outsourcing (interviews with Denny, Company D, 16 and 29 May 2012). The experience of Company B shows that local government agency officials themselves sometimes act as labour brokers, working together with local actors and human resources department staff (interviews with Tunjung, HR Department of Company B, 13 November and 3 December 2013). The recruited outsourced workers are, however, not necessarily local people. Some of them are migrants coming from other Java areas. This shows how the local regulation is misused for the advantage of certain individuals, involving government officials, local actors, and human resource department staff.

The local regulations passed by local government agencies show the role of the local government in shaping the labour regime in the automobile sector. As mentioned, besides issuing the regulations, the government officials are also sometimes even part of the problems by acting as labour brokers. Moreover, as will be discussed below, the local government agency for manpower is not always reliable when unions seek for help regarding labour rights violations. Companies also have similar impressions regarding the role of local government agency on labour issues (interview with Tunjung, HR Department of Company B, 13 November and 3 December 2013).

The local regulations as discussed above reflect the role of local government in labour control regime, particularly the relationship between the local government and the automobile and industrial estate companies. It is argued that the local government maintains patron–client relationship with these companies (Nas 1991: 335).

Based on the above discussions, similarities and differences in the local labour control regime in the oil palm plantation and automobile sectors can be identified. The production and work processes in the oil palm plantation sector still mirror those in the past during the colonial period, whereas such processes in the automobile sector largely demonstrate the Japanese-influenced national culture and the lean manufacturing system. The geography of contention in the oil palm plantation sector is situated in the plantation areas, which in many cases are pretty remote. This allows plantation companies to exercise more control. Depending on how long the plantations have operated, there might be surrounding villages consisting of migrant workers and local people. In the automobile sector, factories are mainly located in industrial areas in West Java, a province that previously relied mainly on the agriculture sector. The location of these areas in West Java is considered strategic due to its proximity to Jakarta, the capital city, and the port in North Jakarta. Surrounding residences are common in the industrial areas. We can also identify different key actors between the two sectors. In the oil palm plantation sector, these actors include companies, workers, trade unions, labour brokers (who are mainly the foremen
working for plantation companies), smallholders, cooperatives, and local government. In the automobile sector, they consist of automobile companies, industrial estate companies, workers, trade unions, labour brokers (who may include local government officials and industrial estate companies themselves), and local government.

Nonetheless, there are similarities in the local labour control regime in both the oil palm plantation and automobile sectors. First, both sectors are confronted with the coalition between companies and local government agencies. This coalition is sometimes extended to military actors and police. Second, the local labour markets in both sectors involve migrant workers. In the oil palm plantation sector, this participation of migrant workers actually mirrors the situation in the past where a large number of coolies were exported from Java. The involvement of migrant workers gives some room for companies to operate along ethnicity and identity issues in such ways so as to achieve workers’ commitment and discipline.

7.2.3. The Political Regime in Indonesia

It is worth mentioning that the local dynamics of the labour control regime are embedded in the same national political regime. This regime consists of an array of national political settings and institutions, including the adopted economic policies. In the discussions on Indonesian oil palm and automobile GPNs, understanding the political regime not only allows a profound comprehension on the institutional arrangements shaping the networks, and thus structural power therein (see discussions in Chapters 5 and 6), but also a deeper grasp on the local labour regime and labour agency in both of the networks.

Chapters 5 and 6 discuss institutional arrangements shaping the oil palm plantation and automobile sectors in Indonesia. In the case of the oil palm plantation sector, this regime stretches back to the colonial period. During the colonial period, the political regime features oppression and violence from the colonial government. After independence in 1945, the nationalist government passed several policies that encouraged the role of local domestic actors. This was depicted in the nationalisation of the former Dutch-owned plantations. Meanwhile, the colonial period and the post-independence era did not see significant development of the automobile sector. The post-independence period features Demokrasi Terpimpin, or Guided Democracy, which mainly reflected nationalists spirits in driving the country. It is also worth mentioning that Sukarno, the then president, was backed up by PKI (Partai Komunis Indonesia: Indonesia Communist Party). The support from PKI was important for Sukarno to counter-balance the military power (La Botz 2001: 31; Hainsworth et al. 2007: 42). The substantial influence of PKI during the Sukarno administration explains the strong peasant and labour movements at the time. During this
period, for instance, the 1960 Basic Agrarian Law was passed. Also, as will be mentioned below, labour regulations protecting workers’ rights were enacted.

Nevertheless, Sukarno’s regime endured power struggles between PKI and the military force. Under the pressures of PKI, not only did Sukarno passed the Basic Agrarian Law, but he also nationalised the former Dutch-owned plantations. PKI was expecting Sukarno to involve the Party in the administration and organisation of the plantations. However, the military actors successfully forced Sukarno to turn the management of the newly nationalised plantations to the military (La Botz 2001: 110). This explains the close involvement of the military in the parastatal plantation companies. Later, as discussed in Chapter 5, the military became the protectors of the private plantation companies. In the context of the Cold War, the strong influence of PKI was seen as a threat by the United States government. Since the 1950s, the US government had made intense contact with Indonesian military officials (La Botz 2001: 32). In 1965, during which the country suffered from hyperinflation as well as debt and infrastructure collapse, Suharto, with the support of the military forces, organised a coup, which involved mass murder of PKI members, as well as labour union and peasant activists.

When Suharto entered office in 1966, Indonesia became an authoritarian regime. The economic development model pursued by Suharto administration was grounded on political repression. The main reason was to create political stability, a condition perceived to be necessary for economic development. With the support of the military force, political and civil rights were eliminated (La Botz 2001: 33). Suharto also dissolved all the Sukarno-era political parties into just two parties, and favoured the state-based electoral vehicle, Golkar (Golongan Karya: Hadiz 2004: 66). As discussed in Chapter 5, the economic development path taken has meant land appropriation for large-scale development on the oil palm plantations.

Suharto’s administration not only relied on coercive power (through the police and military forces), but also on discursive power. The government required all social and political parties to adopt Pancasila as their ideology (La Botz 2001: 117). As discussed in the next section, this in turn shaped the industrial relations credo during the Suharto’s regime. The Pancasila democracy was conveyed as

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72 In the 1950s, BTI (Barisan Tani Indonesia: Indonesian Peasants Front) was a large peasants organisation at the time. BTI was affiliated to PKI and pushed for a radical agrarian reform.

73 Aspinall (2005) argues that the resilient of Suharto’s authoritarian regime does not rely on coercion alone. The regime combined coercion and a certain extent of toleration. Constrained criticisms were allowed as long as they did not fundamentally threaten the regime (Aspinall 2005: 2).

74 These so-called ‘Asian values’ implies that democracy remains to be a luxury until prosperity is achieved (Thompson 2004: 1085).
an ‘…anti-liberal, anti-communist, and uniquely Indonesian system suited to the
nation’s culture and history’ (Hadiz 2004: 66). The Pancasila ideology also
implied the emphasis on deliberation instead of opposition in order to reach
consensus (Thompson 2004: 1085). This was embedded in the state’s principle
of ‘family’ foundations (asas kekeluargaan). The foundations dictated the
family values of harmony and consensus in settling conflicts (Katyasungkana
2000: 262).

Robison (2012) argues that the Suharto government played an important role in
the rise of the capitalist class in Indonesia. The entry of the Dutch colonial
government into the country marked the first chapter for the capitalism era.
During this period, it was the Dutch private companies that predominantly
constituted this class with the support of the Dutch government. However, there
was no powerful capitalist class at the centre of Indonesia’s national revolution
(La Botz 2001: 106). The capitalist class expansion seemed to be difficult during
the Sukarno administration with the absence of foreign investment75. Suharto’s
regime attempted to reintegrate Indonesia into the world market76, along with a
centralised and authoritarian government, as well as strong involvement of the
military. Apart from the influence from international capitalists, the government
and military were key players to the extent that many government bureaucrats
and military actors held businesses or important positions in private or parastatal
companies. This bureaucratic economy, as Robison calls it, implies the patron–
client relationship in which state officials (including military actors) and private
(both domestic and foreign) actors struggle to accumulate capital.77 This power
struggle also shows how bureaucratic political actors have become a part of the
capitalist class. All in all, Suharto’s regime provided a fertile ground for the
revival of the capitalist class through processes involving political and social
conflicts, and coalitions between both domestic and international capitalists,
military actors, and the state.

The attempt of Suharto’s government to reintegrate the country into the world
market coincided with the renewed competition between the US (United States),
Japan and Europe (La Botz 2001: 47). The US had pushed Japan to be a
dominant economic power in Asia. In the late 1970s, Japanese investments

75 After the 1945 Independence, the country went through difficult economic situations
coupled with unstable political climate (e.g. frequent changes of cabinets).

76 The reintegration of Indonesia’s economy into the world market during the Suharto
administration can be associated to the technocratic feature of the regime. This feature
implies how economic policies during the time were dictated by economists mainly trained
in the United States (i.e., the University of Berkeley) and returned to Indonesia along with
the West’s liberal economic ideology. The technocratic expertise, as the World Bank and
USAID (United States Agency for International Development) argue, was essential for the
creation of market-friendly and democratic political institutions (Hadiz 2004: 63).

77 This eventually led to the extensive practices of KKN (Korupsi, Kolusi, Nepotisme:
corruption, cronysm, nepotism).
filtered into Southeast Asian countries, including Indonesia. The Indonesian automobile sector was one of the main beneficiaries of this development. As evident through the US contacts with the Indonesian military force, as well as the US-trained Indonesian economists who drafted neoliberal economic policies for Suharto’s government, the political economy conjunctures in Indonesia have been inevitably interlinked to US policies.\(^78\) Responding to the 1997 Asian Financial Crisis, Indonesia agreed to receive assistance from the IMF. This implied that the country had adopted market liberalisation policies. The IMF and World Bank also put pressures on the Indonesian government to pursue decentralisation. It is argued that such pressures were a way to break up the centralised state power and to ensure smooth market reform.

While from the perspective of firms, patrimonial links are an element of political power that can be mobilised by them, they also serve as one dimension of state power (Robison 2012: 37). Apart from having public authority that connects the state and capital, the state may exercise its power through the clientele relationships between state officials and capitalists. Processes at this level would then define which sectors are strategic for the state, and which are left to the private actors, or the cooperation of both. Apart from repression, Suharto’s regime relied heavily on such links with Suharto as the main patron\(^79\) (Bünte and Ufen 2009: 8). Suharto and his allies established political and economic oligarchy (La Botz 2001: 35). The patrimonial links maintained by Suharto explain the selective adherence to neoliberal policies imposed by international financial institutions.\(^80\) Government policies continued to protect certain industries dominated by Suharto’s families and cronies. The oil boom made the ‘high cost economy’ possible.\(^81\) It was only when the country could not rely heavily on oil anymore that the government once again attempted to liberalise the economy, i.e., the so-called second market reform\(^82\) (Hadiz and Robison 2005: 221). Apart from financial liberalisation, this second market reform also

\(^78\) It is argued that the post-Second World War period features the US new-style imperialism in Asia (particularly in Japan, Indochina, South Korea, and Taiwan), replacing the old-style European colonialism (Thompson 2004: 1083).

\(^79\) It is argued that the patrimonial links are adopted from the patrimonial logic of Javanese kingdoms (Bünte and Ufen 2009: 9).

\(^80\) This resulted in a tension between politico-bureaucrats and technocrats over liberalisation policies. It caused resentments among economic players, including foreign investors, who had less privileged access (Aspinall 2005: 30).

\(^81\) The oil boom allowed Suharto’s government to borrow abroad and build national industrial infrastructure (i.e. import-substitution industrialisation).

\(^82\) The first wave of market reform, as argued by Hadiz and Robison (2005), took place at the beginning of Suharto’s regime (particularly during the oil boom, 1967-1981) when the United States-trained economists drafted several macro-economic policies for Indonesian government. Between 1981 and 1988, Indonesian economic growth dropped following the decline of the world price of oil, marking the end of oil boom.
implied the shift from ISI-driven (import-substitution industrialisation) to EOI-driven (export-oriented industrialisation) policies (Booth 1992: 26).

As discussed in Chapters 5 and 6, the government played a key role in both the automobile and the oil palm plantation sectors during the Suharto administration. In the oil palm plantation, the government initially led the development of the sector. The next period of development saw the salient role of private domestic as well as foreign actors. In the automobile sector, patrimonial links with the government officials allowed local conglomerates to get the sole agent role as well as subsequent access to joint ventures with Japanese-based automobile companies for assembling and manufacturing operations.

Following the Asian Financial Crisis in 1997, the Suharto authoritarian regime fell. The political regime was superseded into the Reformasi era, which proceeded with a twin process of democratisation and decentralisation. Indeed, the important immediate development of the Reformasi era is the move towards regional autonomy. This has implications in terms of decentralised administrative authority, fiscal autonomy, and control over resource management (Hainsworth et al. 2007: 42). As discussed in Chapter 5, the local government, for example, plays a key role in issuing licenses for operating oil palm plantations. Similarly, the local government of West Java acts as an important actor in regulating the industrial areas where automobile factories are mainly located. The move was criticised as being too hasty, transferring the authority of local resources into local inexperienced political actors, hence, resulting in an even more expansive practice of corruption at the local level (Djalal 2001, as cited in Hainsworth et al. 2007: 44). Sjahrir et al. (2014) reveal that increased administrative spending of local governments in Indonesia following the decentralisation policy is attributed to a lack of political accountability, rather than to proliferation of districts. Thus, they conclude that the decentralisation process has significantly weakened accountability mechanisms at the local level. This is hardly surprising, as the dominant political elites from Suharto’s government were not swept away through the democratisation movement (Crouch 2010: 111). The enduring legacy of Suharto’s government has resulted in the deeply entrenched interests even to the local government levels.

The three government periods following the fall of the Suharto regime saw vulnerable political and socio-economic situations, in which sectarian and ethnic violence, terrorist bombings, and social tensions were widespread. It was only in 2004, when the country ran direct elections for legislative members and the

83 Under Suharto’s administration, local governments were essentially extensions of the central government (Crouch 2010: 88). The structures were uniform across provinces, districts, and villages, abandoning the local traditions (ibid.: 89).
president for the first time. It is argued that the 2004 elections marked an important milestone in the country’s history, as the elections paved the way for sharp contrasts of regime compared to the previous three government regimes (Hainsworth et al. 2007: 45).

The fall of the authoritarian regime is, however, not followed by the rise of a regulatory state. The Reformasi regime restructures the power constellation between the state and capital in such ways that the patrimonial links with the state remains an important source for business actors to accumulate capital. The reconsolidated power constellation continues to consist of political actors or bureaucrats and entrepreneurs, many of them the legacy of the previous authoritarian regime, who then reinvented themselves as ‘democrats’ or ‘reformers’ (Hadiz 2004: 64). For Hadiz and Robison (2005: 221), this shows ‘how a system of predatory relations and the ascendancy of politico-business families and corporate conglomerates have survived successive waves of reform’. This is because: (1) private oligarchies consisting of networks of state apparatus and business actors were able to hijack the reforms to consolidate and even extend their own position, and (2) no cohesive liberal political coalition existed to effectively compete with the reconsolidated private oligarchies following the fall of Suharto (ibid.: 222, 236). It is unsurprising that the political regime during the Reformasi era remained quasi-democratic, with continuous human rights violations from government officials and military actors (La Botz 2001). Fukuoka (2012) argues that the patrimonial state featured in Suharto’s regime prevented the growth of an advanced form of capitalism and the Indonesian capitalists continue to rely on state patronage. The democratisation push, as Fukuoka argues, was not purported by the disagreement over economic policy, but by skewed distribution over resources. As a result, the Reformasi era saw the transformation from a patrimonial administrative state to a patrimonial oligarchic state. In the former, politico-bureaucratic elites were superior than business elites, while in the latter the business elites have an

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84 The reconsolidation means that business actors cannot seek protection only from politico-bureaucrats within the state departments, but also from parties and parliamentary forces both at the national and local levels (Hadiz and Robison 2005: 232).
85 The market liberalisation embraced by Indonesia following the 1997 Asian financial crisis is claimed by Hadiz and Robison (2005: 221) as the third market reform, whereas the previous two reforms took place during Suharto’s regime.
86 Two important developments explain the survival of the old interests (Hadiz and Robison 2005: 232). First, the new alliances of politico-bureaucratic and business actors effectively deploy populist ideologies, which typically take the form of the egalitarian symbols of Islamic struggles or the more secular notions of nationalism. The second aspect refers to the utilisation of new strategies of certain mass mobilisation and political violence through paramilitary or militia groups, whose memberships often interlink with organised crime.
87 Fukuoka (2012) explains that there was an increasing number of business elites left out of Suharto’s networks towards the end of his regime.
independent base of the state apparatus, but access to the state remains important for success.

7.2.4. Indonesian Labour Regulations and Labour Movement

The political regime discussed above sets the context of Indonesian labour regulations and labour movement. The strong labour movement during the post-Independence era explains labour regulations that increased workers’ bargaining positions as well as substantially protected labour rights (Agusmidah 2011: 145). For instance, Law No. 12/1948 (the Work Act): (1) prohibited child labour; (2) regulated working time; and (3) provided maternity leave for female workers. The government also issued Law No. 33/1957 on Occupational Accidents, Law No. 23/1948 on Labour Monitoring, and Law No. 21/1954 on Collective Agreement between Employers and Workers’ Union, all aimed at protecting labour rights. In 1956, the country ratified the ILO Convention No. 98 on Rights to Organise and Collective Bargaining.

Power struggles between the Communist Party (PKI) and military forces manifested in the labour regulations during the Sukarno administration. While some basic labour rights remained protected, several regulations were issued to limit labour activism (Agusmidah 2011: 147). For example, the government passed Peraturan Penguasa Perang Tertinggi (Highest War Authority Regulation) No. 4/1960 on Strike Prevention and Lock Out. This regulation was enforced by Law No. 7 PRP/1963 on Strike Prevention and Lock Out.

During the Suharto administration, labour regulations sought to achieve a tight control over workers’ organisations on one hand, and labour-management harmony, tripartite dispute resolutions, and the social security system on the other (La Botz 2001: 124). The tripartite labour tribunal consisted of representatives of the government, employer, and the government-based union. The regulations offered central and regional levels of resolution committees. The social security system was put in place through Jamsostek (Jaminan Sosial Tenaga Kerja: Worker Social Insurance), which provided health and pension coverage for workers and their families. The regulations required both the employers and workers to pay a certain contribution into the social security programme. Regulations on severance payments made it relatively more difficult for terminating workers.

The Reformasi era feature regulations that give relatively more space for the labour movement. For instance, Law No. 21/2000 (Trade Union Act) essentially

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88 According to Law No. 3/1992, the social security program is managed by PT Jamsostek, which is a parastatal company. The program covers: (1) occupational accident insurance; (2) death insurance; (3) pensions; and (4) health insurance. One of the main critics towards the programme is the monopoly held by PT Jamsostek. The company has been known as a financial source for corruptors (Wijayanti 2009: 157).
allows workers to form and join an independent union. Law No. 3/2003 (Manpower Act) encourages the negotiation of collective agreement between employers and workers. Law No. 2/2004 (Industrial Dispute Act) replaces the former tripartite dispute settlement committee with industrial relations court, meaning issues involving rights disputes, interest disputes, termination disputes, and inter-union disputes could be filed to the court (Ford and Sirait 2016: 234). Disputes unsuccessfully resolved through, consecutively, bipartite negotiations, mediation, conciliation, and arbitration can be heard before industrial labour relations court. Dissatisfaction with the ruling of the court can be followed up with an appeal before the Supreme Court. The move towards industrial relations court is criticised, as it assumes the equal position between employers and workers (Nugroho and Tjandraningsih 2012: 119). In this case, workers have to bear the costs to go through the legal process.

Labour regulations also experience the effects of the decentralisation move. During Suharto’s regime, minimum wage regulations were issued by central and regional government. Meanwhile, the 2003 Manpower Act stipulates that provincial-level government issues minimum wage regulations based on recommendations by district-level government, which is advised by a district-level wage council. Apart from the general minimum wage, there are also sectoral minimum wages. The Ministerial Regulation No.7/MEN/2013 on the Minimum Wage stipulates that these minimum wages are subject to bipartite negotiations between employers and workers. It is worth mentioning that minimum wage regulations are intended for a single worker who has worked less than a year. As such, according to the regulations, married workers are entitled to an amount higher than the minimum wage level. Similarly, if workers have more working experiences, they are by law entitled to wages higher than the minimum wage level. The minimum wage regulations have been one of key aspects considered by investors. The concerns are mainly whether the increasing trend in minimum wages is followed by increasing workers’ productivity (Agusmidah 2011: 27).

The 2003 Manpower Act also stipulates contract employment. The Law permits such employment for: (1) one-time or short-term work; (2) work that needs maximum three years to get finished; (3) seasonal work; and (4) work related to new product development. The Law is, however, not very clear on the basic criteria that needs to be met, whether it is based on the timing to get the work done or on the completion of the work (Agusmidah 2011: 28).

Another major remark of labour regulations in the Reformasi era is the regulations on outsourcing practice. The 2003 Manpower Act allows such practice. The Act, as well as the Ministerial Regulation No. 19/2012, however,

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89 For instance, the sectoral minimum wages for the automobile sector are generally higher than the general minimum wage level.
limits the outsourcing practice and contract employment to non-core firm activities, such as catering or cleaning services. Despite this restriction, outsourcing practices are in reality rampant, taking place even in firms’ core activities. Similar to the case of regulations on contract employment, regulations on outsourcing activities suffer from lack of enforcement and monitoring (Nugroho and Tjandraningsih 2012: 116). The first problem lies in the regulations themselves, which are not clear and open for different interpretation. Another root of the problem is the lack of government capacity in terms of labour inspectors, particularly since the decentralisation process transfers this task to the local government. Corruption and collusion involving government officials also contributes to the lack of monitoring (ibid.: 117). This collusion often includes members of the local community, who take part in the role as labour brokers. This in turn creates horizontal conflicts between workers and local people (ibid.: 124).

While regulations on severance pay continue to deter employers to lay off workers, regulations on outsourcing give employers flexibility. Indeed, the regulations on outsourcing show the move towards a flexible labour market. Flexible labour market is perceived as a solution for high unemployment following the 1997 Asia financial crisis as well as a suitable path for Indonesia in the attempt to integrate with the world market.\textsuperscript{90} Apart from regulating contracts and outsourcing employment, labour market flexibility is also devised through regulations on industrial relations courts, minimum wages, and the social security system.\textsuperscript{91} The move towards a flexible labour market is criticised as lacking policy coherence between manpower policies and policies on industrialisation, human resources development, poverty alleviation, and the government management system (Nugroho and Tjandraningsih 2012: 121).

Despite the significant development of the labour regulations in the Reformasi era, there remain limits on the reach and effectiveness of such regulations on the formal industrial system (Ford and Sirait 2016: 235). This is due to the structure of the economy, insufficient resources of inspection and dispute resolution mechanisms, and the lack of enforcement of the regulations. The decentralisation policy complicates this matter. As in the case of non-labour issues, local labour regulations often contradict the national framework and regulation implementations remain lacking (Ford and Tjandra 2007, as cited in Ford and Sirait 2016: 236).

\textsuperscript{90} The World Bank claims that Indonesia’s labour regulations stipulate high severance payments (Agusmidah 2011: 89). Meanwhile, flexible labour market is often the recipe offered by the IMF (International Monetary Fund) and the World Bank to the developing countries as a part of the economic liberalisation packages (Nugroho and Tjandraningsih 2012: 107).

\textsuperscript{91} Apart from the prevailing Jamsostek mechanism, the government also issued Law No. 40/2004 on the National Social Security System.
Before the end of Dutch colonialism, Indonesian workers in agriculture and industry were already able to organise labour unions and even powerful strikes (La Botz 2001). At the time, the movement consisted of railroad workers, miners, factory labourers, and urban service workers. The labour movement was then repressed by the Dutch government through military and police force. Nonetheless, the labour movement reappeared and was even actively involved during the 1945 independence struggles. The post-independence era unsurprisingly saw a strong labour movement. The strong labour activism during the Sukarno administration is demonstrated by the existence of a number of workers’ unions and the presence of union leaders in the country’s parliament seats. SOBSI (*Sentral Organisasi Buruh Seluruh Indonesia*: All-Indonesia Central Workers’ Organisation), the largest workers’ union at the time, was affiliated with PKI, the Indonesian Communist Party. Until 1956, there was even a labour-based parliamentary faction. Furthermore, during this period Indonesia adopted various labour regulations aimed at protecting workers (Sinaga 2012: 167).

There was not much space for the labour movement during Suharto’s authoritarian government. As mentioned, the government also involved the military actors in exercising its control. The country essentially implemented “exclusionary state corporatism”, which means allowing trade unions to function in promoting economic development, rather than to represent workers (Hadiz 1997, as cited in Ford and Sirait 2016: 231). The only large workers’ union at the time was the government-based FBSI (*Federasi Buruh Seluruh Indonesia*: All Indonesian Workers’ Federation). FBSI then changed into SPSI (*Serikat Pekerja Seluruh Indonesia*: All Indonesian Workers’ Union) as the government prevented the affiliation of union members to affiliate with international unions. Government employees (including those who work in parastatal companies) were members of the government created KORPRI (*Korps Pegawai Republik Indonesia*: Indonesian Public Employee Corps). Suharto’s regime also subscribed to Pancasila Industrial Relations, which essentially means that the government-employee relations are viewed as family-like relations, and thus conflicts between family members should be avoided. Under this ideological subscription, workers’ strikes, for example, were not allowed.

Labour unrest was already occurring in the late days of the Suharto administration.\(^92\) Apart from the influence from the international labour

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\(^92\) In the 1980s, labour strikes took place with the support of civil society organisations. Indeed, civil society organisations helped organise labour and contributed to the birth of an alternative labour movement during this period (Djati 2012: 204; Sinaga 2012: 246). Some of these organisations initially provided workers legal assistances in the case of labour rights violations (Sinaga 2012: 243).
movement, the socio-economic situations associated with the end of the oil boom served as the catalyst of this unrest. The pressures from international actors were heightened especially after the end of the Cold War, as the actors (e.g., the United States government) no longer needed the support of Suharto’s regime (Ford and Sirait 2016: 231). The labour movement, was, however, not the prime leader in overthrowing Suharto’s government, rather it was the student movement, with the support of the urban middle working class.

The flight of international investments resulting from the 1997 Asian financial crisis made it clear that providing assurance for international actors was one of the succeeding government’s primary tasks. Immediately after the fall of Suharto, the government ratified ILO Convention 87, guaranteeing the rights of workers to form and join independent unions. This was subsequently translated into Law No. 21/2000, which allows at least 10 workers to form a union. This led to a flourishing number of labour unions. (La Botz 2001: 167). The flip side of this story is that it led to fragmentation in the labour movement. Such fragmentation, together with labour’s lack of experience in organising a movement, including managing union membership fees, which in turn affected union independence (Asgart 2012: 87), due to the enduring dictatorship period, made the struggles uneven vis-à-vis the state and business actors (La Botz 2001: 54). In addition, outsourcing practices allowed by the 2003 Manpower Act eventually affected union organisation and activism. Such practices may have reduced the number of permanent workers, who served as an important basis for union memberships (Nugroho and Tjandraningsih 2012: 115). Last but not the least, one of the most important challenges facing unions in Indonesia to this day is how to build and spread class consciousness (Asgart 2012: 88). Union members tend to consult with their unions only when a problem in the workplace takes place, making the unions and their members stranded into a patron-client relationship. This then limits labour movement into normative issues, while ideological issues such as social justice and class remain to be explored.

93 During Suharto’s regime, the international labour movement involved exclusively with the official union, although the AFL-CIO (American Federation of Labour and Congress of Industrial Organisations), some European unions, and national governments gave supports to NGOs (non-governmental organisations) in Indonesia that at the time worked with alternative labour movement (Ford and Sirait 2016: 235). Following the fall of Suharto, GUFs (Global Union Federations) assisted the birth of sectoral unions. ICFTU (International Confederation of Free Trade Unions; now ITUC/International Trade Union Confederation) then helped the establishment of the KSPI (Konfederasi Serikat Pekerja Indonesia/ Confederation of Indonesian Workers Union).

94 Already in the late 1980s Suharto’s government saw a relatively more open regime as a response to elite conflict and liberalisation policies (Aspinall 2005: 42).

95 The economic development during the Suharto administration contributed to the rise of the middle working class. The middle class growth partly gave impetus to increasing NGO (non-governmental organisations) activism (Aspinall 2005: 86-87).
Nevertheless, it is argued that the twin process of democratisation and decentralisation, which features in the Reformasi era, offers workers a certain degree of political space, particularly for policymaking engagement and electoral politics (Ford and Sirait 2016). Minimum wage campaigning serves as a case in point. The opportunity for unions to engage in local politics allows them to reconsolidate the unions’ collective power. This was particularly of importance, as the labour movement later attempted to broaden their agenda by engaging in social security system campaigning. Although the campaign was eventually not fully supported within the labour movement, it showed the ability of the labour movement to build networks and alliances (e.g., with NGOs, academic think tank groups, and student movements) and even took the leadership in this coalition.

Law No. 21/2000 allows multiple federations or confederations as well as the affiliation of workers’ unions to any federation or confederation. As of 2015, there were three large confederations (Ford and Sirait 2016: 233). The largest was KS PSI (Konfederasi Serikat Pekerja Seluruh Indonesia: Confederation of All-Indonesian Workers Union), the formerly government-based union. KSBSI (Konfederasi Serikat Buruh Sejahtera Indonesia: Confederation of Indonesian Prosperity Trade Union), established at the late of Suharto’s regime. Following KS PSI and KSBSI, there is KSPI (Konfederasi Serikat Pekerja Indonesia: Confederation of Indonesian Workers Union), created with support of ICFTU (International Confederation of Free Trade Unions). As will be discussed below, workers’ unions in the automobile and oil palm plantations are affiliated to these confederations.

The above discussions on labour control regime, political regime, labour regulations, and the general labour movement provide important grounds in analysing labour agency in the oil palm plantation and the automobile sectors. The following sections discuss labour agency in the two sectors.

7.2.5. Labour Agency in the Indonesian Oil Palm Plantation Sector

This book limits the analysis of labour agency to workers’ structural and associational power. Here, it seeks to understand how workers resort to one or both sources of workers’ power in their attempt to shape the landscape of Indonesia’s oil palm and automobile GPNs. As we shall see, workers’ attempt to resort to one or both sources of workers’ power is also shaped by the local labour control regime as well as the broader context of Indonesia’s political regime.

As discussed in Chapter 3, workers’ structural power consists of marketplace bargaining power and workplace bargaining power. Plantation workers clearly
have weaker marketplace bargaining power compared to workers in the automobile sector. Workers are not required to possess certain skills in order to become plantation workers. Poverty and unemployment rates remain major issues in Indonesia. It is this situation that served as a background for the government to initiate the *transmigration* programme. The agrarian reform under Law No. 5/1960 may improve workers’ bargaining power as workers may resort to non-wage sources of income. However, the current investment law (Law No. 25/2007) undermines workers’ marketplace bargaining power. After more than three decades of the development of the oil palm plantation sector, the plantation areas managed by parastatal companies have sunken, while those operated by smallholders and private plantation companies have increased. Currently, private plantation companies operate the largest share of plantation areas, followed by smallholders. In 1979, parastatal companies operated around 68% of total plantations, while smallholders and private plantation companies managed 1% and 31%, respectively (Directorate General of Estates 2011: 3). In 2010, private plantation companies operated 52% of total plantation areas, whereas smallholders and parastatal companies managed 40% and 7%, respectively (ibid.). It is suspected that the areas managed by private companies are mostly operated by large private company groups. One might argue that the increasing number of smallholders on oil palm plantations over time indicates the increasing opportunity for workers to pull out from the labour market and rely on non-wage sources of income. Nonetheless, in the oil palm GPN, smallholders are dependent on palm oil mills, which are largely operated by private plantation companies, as these become more vertically integrated. Additionally, many studies present the stories of the unsuccessful plasma smallholders who end up as plantation workers (Zen et al. 2005; Colchester et al. 2006).

Meanwhile, workers on oil palm plantations have relatively weak workplace bargaining power. The power to disrupt continuous plantation activities is absent on the oil palm plantations since the work of a plantation worker does not require the completion of work by another plantation worker. Maintenance activities (e.g., fertilising or spraying pesticides) could be stopped without disrupting harvesting activities. Furthermore, plantation companies or smallholder employers can easily replace the workers in case there is a disrupted plantation activity caused by workers. On the other hand, workers on plantations actually have relatively stronger logistical power since FFBs have a perishable characteristic, and thus these bunches need to be processed in a palm oil mill as soon as possible. In the case of smallholder-owned plantations, transport workers are usually employed by either cooperatives, farmers association, or traders. As such, these workers are separated from plantation workers. In the case of plantations operated by companies, transport workers are either employed directly or subcontracted by the companies. In the case of the former,
transport workers are not separated from plantation workers. As such, the relatively strong logistical power possessed by transport workers could counterbalance the relatively weak workplace bargaining power of plantation workers.

With regard to associational power, during the post-independence era plantation workers, including the oil palm plantations, served as the basis for the leftist movement, especially the PKI (Partai Komunis Indonesia: Indonesia Communist Party). Labour movement on plantations was considered strong during that time. One of the unions that existed on the plantations during this time was Sarupri (Sarikat Buruh Perkebunan Republik Indonesia/Plantation Workers’ Union of the Republic of Indonesia), which was affiliated with PKI. One of the organisations actively engaging with working conditions on the plantations during that time was Gerwani (Gerakan Wanita Indonesia/Indonesian Women’s Movement), which had close ties with PKI. Established in 1950, Gerwani initially consisted of educated middle class women, some of who had been active before the war and Independence, while the others had been active in guerilla struggle against the Dutch (Wieringa 1993). By 1955, most of the members were female peasants and thereby Gerwani focused on defending female peasants (ibid.; McGregor 2012: 200). Gerwani also actively engaged with several important issues for women during that time: illiteracy and marriage law. Gerwani came up as a militant women organisation with a socialist platform during that time. In the 1960s, Gerwani members were mobilised by PKI for mass demonstrations, for example, against the arrest of peasants or labour leaders (Wieringa 1993). PKI carried out unilateral actions on land reforms in 1963, and in 1964 its workers members took over British plantations and companies (Ricklefs 2008: 569, 570). The fall of PKI, which marked the beginning of the New Order government, as well as the stigmatisation towards left politics during the Suharto administration, brought an end to the strong labour movement on the plantations. Gerwani was even stigmatised as an organisation of sexually perverted women (Wieringa 1993, 2011). During the New Order government, workers experienced tight labour control, which weakened their associational power. For instance, the government only allowed union affiliated to SPSI.

Currently, there are two major unions on oil palm plantations in Sumatra, namely FSP-BUN (Federasi Serikat Pekerja Perkebunan: Federation of

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96 After the Dutch colony was phased out, plantations were taken over by the military based on the justification that the country was in an emergency situation at that time. People around the plantations attempted to take over the plantations. Meanwhile, there was an alliance between the military and bureaucrats to get the plantations into the hand of the state. As such, plantations’ management ended up in the hands of the alliance, while the Indonesia Communist Party and other mass organisations had access only to plantation workers and low class workers (Andriani 2007: 122).
Plantation Workers) and FSP-NIBUN (Federasi Serikat Pekerja Pertanian dan Perkebunan: Federation of Agriculture and Plantation Workers Union). FSP-BUN was established on 14 April 1998, slightly before the fall of Suharto administration. The background of the establishment is the efforts to defend labour rights, as these were limited during the Suharto administration (interview with FSP-BUN, 5 April 2012). The members of FSP-BUN are workers of parastatal plantation companies, including those that operate oil palm plantations. The members of FSP-BUN in the plant level, also called SPTP-BUN (Serikat Pekerja Tingkat Perusahaan Perkebunan), have successfully negotiated for collective agreements with these companies. SPTP-BUN in the parastatal company, PTPN-V, which covers plantation areas in Riau, for example, has negotiated a collective agreement with the company since 2000 (interview with SPTP-BUN 5 April 2012). During the time, there have been many significant changes in the collective agreement, particularly on issues concerning wage level. Since the implementation of a sectoral minimum wage in Riau, SPTP-BUN has negotiated wage level with a reference to such sectoral minimum wage (ibid.). Other aspects of workers’ rights are also subject to the union’s struggle over the time, such as facilities for workers (housing, water, and electricity), uniforms, and occupational health and safety kits (ibid.).

The second notable union is FSP-NIBUN (Federasi Serikat Pekerja Pertanian dan Perkebunan: Federation of Agriculture and Plantation Workers Union). This union is affiliated to KSPSI. In the case of the oil palm plantation sector, members of FSP-NIBUN are workers in the plantations operated by private companies. In plantation areas in Sumatra, the union has successfully negotiated collective agreement with these companies, which in this case are represented by BKS-PPS (Badan Kerja Sama Perusahaan Perkebunan Sumatra: Cooperation Board of Sumatra Plantation Companies).

Although the role of these two unions seems to be appreciated, particularly because they have successfully bargained for collective agreement with plantation companies, there are several drawbacks worth mentioning. First, the two unions are known for their close relationship with plantation companies. One of the important leaders in FSP-NIBUN is a manager of an oil palm plantation company in Sumatra. FSP-BUN currently holds the motto of ‘Perusahaan Sehat Karyawan Sejahtera’, which literary means ‘if the company is healthy, then workers will be prosperous’. By putting emphasis on this motto, the union seems to perceive that workers’ prosperity (which also includes the protection of workers’ rights) are the results of the well-being of the company, hence, the well-being of the latter should come in the first place. Second, the unions only organise permanent workers and thus exclude casual workers who

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These parastatal companies are called PTPN (PT Perkebunan Nusantara). There are currently 14 parastatal plantation companies in Indonesia.
make the largest share of plantation workers. Third, the collective agreement decided by FSP-NIBUN with BKS-PPS, an association of private plantation companies in Sumatra, violates some of the local labour regulations, for example, regulations on minimum wage for the oil palm plantation sector. The wage level stipulated in the collective agreement is lower than the sectoral minimum wage. Meanwhile, FSP-BUN seems to turn a blind eye to child labour issues in the oil plantations sector.

There is also a union named PERBBUNI (*Perhimpunan Buruh Perkebunan Independen*: Independent Plantation Workers Association). The union was established in 1999 by HAPSARI (*Himpunan Serikat Perempuan Indonesia*: Indonesian Women Union). Carrying the platform as an independent union, PERBBUNI seems to encounter challenges from the plantation company (e.g., the case of PERBBUNI members on plantations operated by PT PP Lonsum Begerpang Estate, North Sumatra). The union works together with NGOs in organising casual workers on oil palm plantation in North Sumatra. Prior to the election in 1999, PERBBUNI was active in educating plantation workers on political awareness and participation. However, PERBBUNI later suffered from internal conflict, which hindered its struggle to organise plantation workers, particularly those with casual labourer status. It is argued that forming independent unions on plantations remains difficult. In her speech in a discussion on empowering plantation workers on 23 August 2006, Lely of SEKBER ORI (*Sekretariat Bersama Organisasi Rakyat Independen*: Common Secretariat for Indonesian People Organisation) North Sumatra pointed out that the reasons for the difficulty in forming independent labour organisation on plantations are twofold. First, independent unions are not yet ready to be a movement. Second, the counter-movement remains based on courage or radical thinking, and not yet on critical consciousness. Furthermore, while for unions working with NGOs provide several advantages (mostly related to resources) and thus strengthen workers’ associational power, Lely argued that the relationship between unions and NGOs tends to be programmatic; once the program ends, the fighting spirit dies.

Apart from PERBBUNI, a relatively new independent union, SBPI (*Serikat Buruh Perkebunan Indonesia*: Indonesian Plantation Workers’ Union) also attempts to organise plantation workers. The union was founded in 2011. Similar to PERBBUNI, the union organised casual workers in North Sumatra, particularly in Langkat, Deli Serdang, Asahan, and Labuhan Batu. SBPI seeks to organise workers in: (1) plantations where a union already exists, but this existing union is ‘pro’ company; or (2) plantations where unions previously had existed but then dissolved (e.g., plantations previously organised by PERBBUNI). Specifically, SBPI targets plantations managed by MNCs (multinational corporations), considering how Indonesia has become closely integrated to the palm oil global production network and how MNCs are one of key actors
in the network (Interview with SBPI, 8 November 2013). Given the target of their penetration, it is not surprising that there are eventually two unions on one plantation. This then becomes a challenge, especially if the existing union is already established, such as, F-SP NIBUN. The more established union already has a solid funding source through a regulated membership fee, and has usually already negotiated collective agreement with plantation companies. Regardless of the existence of another union, the collective agreement is bound to all workers of the company. SBPI sets collective agreement as their long-term advocacy agenda. The agreement will entail fair premium payment calculation and provisions regarding occupational safety and health equipment.

SBPI also admits that one of the challenges in organising plantation workers is approaching the workers. This attempt is difficult given the housing arrangement, which allows companies to closely control their workers. The union activists sometimes have to disguise themselves as sales persons or magazine sellers in order to be able to pass the security guard. For plantation workers, housing arrangement also hinders access to more information. Meanwhile, SBPI also seeks another way to get access to plantations, that is, by approaching local community organisations, particularly such organisations that subscribe to similar platforms. According to SBPI, approaching the local community would also minimise the risk in getting access to a plantation. Another challenge facing the union relates to the union organisation. SBPI does not require membership fees and the union’s financial resources are not sufficient to hire a full-time officer. Nevertheless, SBPI does not want to depend on other sources of funding. The union may receive some help for educating workers as a part of collaboration work with other actors, such as NGOs. Internally, SBPI does not see the large number of Javanese migrant workers as creating fragmentation in the labour movement, since these workers have lived here for generations and have been well integrated.

In the efforts to organise plantation workers, SBPI sometimes faces union busting from companies. Workers interested in joining the union are threatened by companies with, for instance, work mutation or prohibiting workers to grow their food crops around their housing. In this case, foremen often act as the extension of companies by conveying the threats to workers. In one case, a worker was fired due to joining the union. The case was initially filed before the industrial labour court. However, the process was time consuming and the worker, who still needed to earn for a living, eventually took a job offer somewhere else. Companies sometimes even resort to forming a rival union. In such a context, SBPI usually reacts by consolidating its member base. SBPI has also been fighting for casual workers to be hired as permanent ones. The union’s endeavour has always provided affirmation to their members whenever the union faces threats, including from plantation companies. This is also the reason why many casual workers become the members of SBPI. SBPI also reveals that
plantation workers are not used to demonstrations or strikes. The union shows its members how workers sometimes need to resort to such actions to achieve their objective. This also serves as an opportunity to show to the workers that forming or joining a union may increase their bargaining position vis-à-vis plantation companies. Nonetheless, the union admits that the remote location of plantations makes it more difficult for holding a demonstration that draws government and public attention. Workers, for instance, have to travel for eight hours to hold a demonstration in local government’s offices. The remote location also hinders unions’ efforts to broaden the audience of their demonstrations, which is important for exercising symbolic power. For instance, the demonstrations held by plantation workers are often not captured by the local media given the remote location. The interview with SBPI also revealed that the local media only operates in certain discourses, such as land conflicts, and horizontal conflicts between workers and local communities. As such, demonstrations on labour rights violations are often absent in the local media.

The participation of NGOs in the oil palm plantation sector is mainly driven by environmental issues occurring in the sector. Environmental activists become the engine of the NGOs in highlighting environmental problems as well as in promoting sustainable oil palm plantation. NGOs then take a broader focus as socio-economic issues involving land grabbing of local famers/smallholders and indigenous people come to surface. These NGOs also work closely with farmers/peasants unions such as SPI and SPKS. It occurs that the scale of operation of NGOs active in environmental issues is wider than that of NGOs working with plantation workers. While NGOs working with plantation workers exist in North Sumatra (where the oldest oil palm plantations are located), no NGOs have been detected as being actively involved with plantation workers unions in Riau (where the largest oil palm plantations are currently located). Sawit Watch, an NGO that concentrates on social issues in Indonesian oil palm plantation sector, claims that it also takes into account issues with regard to plantation workers. However, this seems to be limited and the NGO remains actively engaged with the land grabbing issue.

Indeed, the struggles in the oil palm plantation sector involve three camps: environmental activists, peasants (also include indigenous people), and plantation workers. Pye (2010) documented the struggles of these camps extensively. While the camp of environmental activists is divided between ‘the relatively coercive’ and justice-oriented environmental groups, local level struggles are also divided between ‘struggles for land’ (organised by landless peasants) and ‘struggles for labour reform’ (organised by rural workers’ trade unions; ibid.: 857, 859). While the first two camps have demonstrated a relative strong associational power (illustrated by the negative campaigns of the Indonesian oil palm plantation sector, which put pressure on plantation
companies), the third camp has been relatively weak in mobilising its associational power.

The establishment of Serbundo (*Serikat Buruh Perkebunan Indonesia*: Indonesian Estate Workers’ Union) marks as an important step in mobilising workers’ associational power in the oil palm plantation sector. Serbundo was established in 2014 out of an alliance between unions and civil society organisations. The alliance proposed the formation of a Working Group on labour at the 2013 RSPO (Roundtable on Sustainable Palm Oil) meeting, and Serbundo serves as a follow up to this Working Group. Serbundo has so far focused on organising plantation workers in North Sumatra. The union also actively puts pressure on North Sumatra’s local parliament members to propose local regulations that protect plantation workers. Since it is a relatively newly founded union, the influence of Serbundo on labour movement as well as on the protection of plantation workers is subject to future research.

There are actually two issues worth noting when we discuss workers’ associational power in the oil palm plantation sector, as well as in agricultural sector in Indonesia in general. The first issue is that after the phasing out of tight labour control during Suharto’s era (1967–98), the union movement in Indonesia has been trying to revive itself. Currently, unions are still in that struggle. However, unions in the agriculture sector seem to be lagging behind compared to their counterparts in the manufacturing sector. This sets the context of the union movement in the oil palm plantation sector in Indonesia. The second related issue pertains to the characteristic of the oil palm plantation sector itself, which needs to be considered in developing unions’ strategies in this sector. Oil palm plantations are mostly located in remote areas, far away from the cities. Workers are lodged in company housings within the plantations. There is no clear line between working and living spaces. They also go to the markets located within or nearby the plantation. Children go to schools provided by the company, or located near the plantation. The whole family goes to mosque or church within or nearby the plantation. With all of these features, a plantation company can easily conduct control mechanisms towards workers. Plantation companies may also install spies within the workforce. Military forces are often involved in conflicts on oil palm plantations. These features also allow the characteristics of colonial despotism as a regime of control on the plantations to persist.

The second issue on associational power mentioned above also shapes the opportunities for plantation workers to mobilise their symbolic power. The characteristic of the location of most oil palm plantations as being remote and far from cities or other non-plantation villages limits the possibility for plantation workers to mobilise their symbolic power in order to build alliances, say, with other local communities. On the other hand, the colonial despotism as a form of control remains on the plantations, as plantation companies still
exercise strong control mechanisms. In this case, the companies are not only able to exercise control through the organisation of the production, but also through shaping values and norms taught by certain institutions on the plantations (e.g., schools, mosques, churches). Through these institutions, discipline and obedience are taught as moral claims as well as the moral obligation of the workers to act accordingly.

7.2.6. Labour Agency in the Indonesian Automobile Sector

Workers in the automobile sector have relatively stronger marketplace bargaining power than plantation workers. The former group possesses certain skills demanded by automobile companies. Nonetheless, the rampant prevalence of outsourcing practices in the automobile sector undermines this situation. The increasing practices of outsourcing in Indonesia is inevitably attributed to the flexible labour market policy pursued by the government under the 2003 Manpower Act. Meanwhile, it is also worth noting that the characteristics of the auto manufacturing system, which mainly adopts the Japanese auto manufacturing system, also underpins the existence of the outsourcing system in the Indonesian automobile sector. As discussed in the previous section on labour control regime in the automobile sector, the lean manufacturing system relies on a ‘lean and dual’ employment model, which provides employment security to a core labour force as a concession for cooperation, yet at the same time constitutes a significant number of workers without the same rights and benefits (Silver 2003: 67). Thus, the legal provisions on outsourcing practices substantiate this dual employment model. As discussed in the previous section on working conditions in the automobile sector, outsourcing practices mainly occur in auto supplier companies. As such, it can be inferred that workers in assembling or manufacturing companies have a relatively stronger marketplace bargaining power than their counterparts in the supplier companies.

The lean production system, in this case the Toyota Production System (TPS), includes the just-in-time deliveries. This implies that ‘…each process should be provided with the right part, in the right quantity at exactly the right time’ (Miroshnik and Basu 2014: 25-26). While this approach may allow automobile companies to cut costs, such as those related to storage, it also constitutes a landscape for the automobile workers to exercise their power at the workplace. In this context, the just-in-time deliveries mean the production process is relatively exposed to disruption, and thus reflects a higher workplace bargaining power for the automobile workers. This became evident during workers’ strikes in the automobile sector. At the time, the automobile suppliers were concerned as to whether the delivery of components and parts to their customers would meet the schedule (e.g. automobile assemblers).
As discussed in Chapter 6, the history of the Indonesian automobile sector can be traced back to the colonial period. During the colonial period and the post-independence era, the sector focused on trading and limited assembling, but not manufacturing. As such, auto factories were presumably limited in numbers and so were the automobile factory workers. It was only during the Suharto government that the automobile sector started to grow, which at that time began with the development of assembling activities. During this period, as mentioned in the previous section, the government imposed tight labour controls and thereby restricted workers in the automobile sector to exercise their associational power. Unions in the automobile sector were all affiliated to FBSI or SPSI, a government-controlled union. In 1973, there was SB-AMP (*Serikat Buruh Assembling Motor dan Perbengkelan*: Assembling, Motorcycle, Service Station Trade Union), which affiliated to FSBI. In 1985, SB AMP merged with other two unions (electronic workers union or SB-E, and metal and ceramic workers union or SB-LK), forming SPSI LEM. The union serves as a predecessor of FSP-LEM (*Federasi Serikat Pekerja Logam, Elektronik, dan Mesin* Federation of Metal, Electronic and Machinery Workers), one of the current major autoworkers federations, as will be explained below.

There are three major federations of automobile workers. However, in this thesis I concentrate on the two major ones. The first one is FSPMI (*Federasi Serikat Pekerja Metal Indonesia*: Federation of Indonesian Metal Workers). The union was established in 1999 as a result of the national congress of SP-LEM SPSI Reformasi. FSPMI covers six sectors (i.e., electronic, automobile, steel, maritime, aerospace, and miscellaneous sectors) with around 522 union members (interview with FSPMI Cibitung and Karawang regions, 6 June 2012). The miscellaneous sector includes supermarket and retail stores, as well as pharmaceutical companies. The automobile sector serves as the union’s important membership base. FSPMI has five pillars important for the union’s struggle, namely *Garda Metal* (responsible for guarding the union during strikes or demonstrations), training center, *Inkopbumi* or metal workers’ cooperative, LBH (*Lembaga Bantuan Hukum*) or legal aids, and *Koran* or newspaper. The plant level unions focus their activities along these five pillars. For example, aside from defending the rights of their members, plant level unions also offer trainings on labour rights to workers. FSPMI is affiliated to KSPI (*Konfederasi Serikat Pekerja Indonesia*: Confederation of Indonesian Workers Unions). At the international level, the union is affiliated through IMF (International Metalworkers Federation). FSPMI has been known for its activism and militancy in defending workers’ rights. The union has been actively organising strikes, pickets, and demonstrations in order to achieve public and, more importantly, government attention on labour issues in Indonesia.

According to FSPMI (interview with FSPMI Cibitung and Karawang regions 6 June 2012), there is still a large number of unorganised automobile workers. The
reasons for this are twofold. First, FSPMI still faces challenges in approaching these workers, either due to lack of resources or due to contentions from automobile companies. The interview reveals cases where some automobile companies exercise restrictive measures once they find out that FSPMI is trying to organise workers in the companies. This is presumably because of the image of the union as mentioned above. Nevertheless, it makes the union even more militant in expanding their membership base. FSPMI usually sets the target, that is, the formation of the plant-level union or the affiliation of the plant-level union to FSPMI must have support from at least 80% of the workers. Regarding the union’s militancy, FSPMI shows the automobile workers that their struggles are aimed at the protection of labour rights, and not for the union officials’ own benefits. They also attempt to demonstrate that the union is determined in every struggle they pursue. FSPMI explains that their struggles are often misunderstood as provocations, while the union is actually trying to make automobile workers aware of their rights. Second, automobile workers’ awareness to form or join a union remains low. This might be exacerbated by several issues, such as: (1) overtime work, which seems to be regular in certain automobile companies; and (2) contract employment and outsourcing practices.

Issues with regard to the employment of contract and outsourced workers have achieved remarkable attention since the issuance of the 2003 Manpower Act. As many news publications and studies point out, since the stipulation of the Law there is a tendency for companies to employ more workers under contract or an illegal outsourcing form of employment (Tjandraningsih et al. 2010). In the sectoral level, FSPMI has also actively carried out factory sweeping in order to monitor whether or not illegal outsourcing practices occur and to demand the abolition such practices in case they occur (Interview with FSPMI Cibitung and Karawang regions, 6 June 2012). As discussed in the previous section, workers in Company D, a second-tier automobile supplier, have only begun to form a union, which will be affiliated to FSPMI. Such initiative is a result of FSPMI’s factory sweeping. Factory sweeping is usually the next step taken if dialogues with the management of the companies are not successful. The union argues that work productivity and employing local people are companies’ excuses to justify their decisions for taking illegal outsourced workers. In this case, FSPMI also underlines the vulnerability of workers brought about by outsourcing practices. Moreover, FSPMI reveals that the government officials of the local government agency for manpower are sometimes involved in the illegal outsourcing practices. According to FSPMI, these strategies have shown positive results. Within the Bekasi region members, for instance, only 8 remain out of 18 companies that employ illegal outsourced workers. Nonetheless, FSPMI also realises that workers in general are facing a challenging socio-economic situation with a relatively high level of unemployment on one hand, and the country’s integration into the world market on the other. While this realisation
shapes the approaches and strategies taken by the union, FSPMI also calls for the government not to take the ‘race-to-the-bottom’ approach but rather the ‘high-road’ instead, by offering high work productivity, good infrastructure, and efficient bureaucracy. In this case, the union argues that Indonesian automobile workers have the same level of skill set with workers in other Southeast Asian countries.

In exercising their associational power, FSPMI relies on several strategies. The initial strategy is to hold dialogues or be involved in discussion forums, either with companies, or internally with other automobile unions. If dialogues with companies do not work, FSPMI will resort to more militant actions, such as strikes, demonstrations, and street protests. FSPMI may also bring the issues to the international level through its affiliation with the IMF (International Metalworkers’ Federation). For instance, through its IMF affiliation in Japan, FSPMI may disclose the situations of automobile workers in Indonesia, and in turn put pressure on Japanese automobile principals. Nonetheless, the arising labour issues remain to be settled at the national level. According to the FSPMI, this is different from the European automobile companies, for example, which already have IFAs (International Framework Agreements). There is no pressure from trade unions in Japan to adopt similar framework agreements.

Apart from labour issues, under its affiliated confederation, KSPI, FSPMI also actively engages in broader socio-economic issues. In 2011, the union blocked the industrial area in Cikarang, West Java, demanding that the government immediately finish the discussion on its draft of the social security bill. In 2012, the union also threatened to overthrow the government if the latter decided to increase fuel prices. This provides the union leeway to build alliances and networks with local communities and community organisations.

I interviewed F-SP LEM for the North Jakarta region, which is the region that mainly hosts automobile factories in Jakarta (interviews 3 and 9 June 2012). The regional branch consists of 29 plant-level unions with around 23,000 active members in total. Around 4,800 members are contract workers. No outsourced workers are included, as they are by law the employees of third party companies. According to the union, the current Trade Union Act (Law No. 21/2000) provides legal clarity on the existence of a union at a plant-level. As such, conflicts between unions can be prevented. At the time of the interview, the union encountered an internal conflict between union members following the split in the head office of F-SP LEM. The regional branch union provides regular workshops regarding labour issues for the plant-level unions. It also helps the plant-level unions whenever they face obstacles. Otherwise, the regional branch mainly acts as a coordinator for its members. Similar activities are embraced by F-SP LEM Karawang region98 (interview with Agus Zainal, F-

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98 Karawang is a region in West Java that primarily hosts automobile factories.
SP LEM Karawang Regional Office, 11 May 2012). For F-SP LEM, the struggles for labour rights start from the plant-level (interview with Supriyanto, F-SP LEM North Jakarta Regional Office, 19 June 2012). In the case of no success, they report the issues to the local government agency for manpower. If this still fails, they proceed with more intense actions, such as sweeping or oration, targeted directly at the management of the respective company. The interview with F-SP LEM Karawang region indicated that internal negotiations involving only the companies and workers are preferred whenever a problem occurs on the workplace (interview with Agus Zainal, F-SP LEM Karawang Regional Office, 11 May 2012). The union strives to be a self-subsistent union, which can eventually maintain its idealism.

The F-SP LEM meets and builds networks with unions from other countries (interviews with F-SP LEM North Jakarta Regional Office, 3 and 19 June 2012) at an international conference held every two years. Other than this channel, there is no formal communication with unions from other countries. The union is not affiliated to the IMF (International Metalworkers’ Federation) because of the relatively high membership fee (interview with Supriyanto, F-SP LEM North Jakarta Regional Office, 19 June 2012). Informal contacts are built as far as sharing the situations facing the unions. On one hand, the union does not seem to see the benefits of the formal affiliation to an international union, other than getting help in putting pressures on companies. The IMF, for example, according to F-SP LEM, cannot have much influence in the minimum wage and outsourcing issues in Indonesia. The union acknowledges that the international union also offers education or workshops on labour issues for its affiliated members, but these, as F-SP LEM argues, are only available to the union officials. On the other hand, F-SP LEM admits that they cannot give much help when unions from other countries encounter hardships. Although there is an international solidarity under the umbrella of the multinational companies, such solidarity does not suffice when it comes to crucial issues. This is certainly associated to the lack of formal alliance between the union and unions in other countries.

Concerning contract employment, for instance, F-SP LEM admits that this is an inevitable situation, particularly because of the nature of the production system employed by the Japanese automobile manufacturers. Nonetheless, the union attempts to make such an effect not as straightforward as it sounds (interview with F-SP LEM North Jakarta region, 3 and 19 June 2012). For instance, the union demands companies to provide estimation on production and sales for the next six months or one year. F-SP LEM also claims that there is a lack of monitoring, for instance, on the implementation of the sectoral minimum wage by the government, particularly the local government agency for manpower. These government officials are often bribed (interview with Supriyanto, F-SP LEM North Jakarta region, 19 June 2012).
Apart from receiving training on labour issues and negotiation skills, affiliation of a plant-level union to a certain worker federation in the automobile sector also helps maintain solidarity between unions, including unions along certain production networks. Some companies, however, do not see the affiliation as a good thing. Company B, a first-tier supplier company, perceives that plant-level unions are mainly taught by the affiliated workers’ federations to put pressure on companies, for instance by holding strikes, sit-ins, or demonstrations, without realising the companies’ situations. In other words, for the company, an affiliation would do more harm than good for labour situations in the company. Such negative perceptions might explain the existence of a plant-level union without any affiliation in Company B.

There are some forums in the industrial clusters that might be used by trade unions to voice their agenda. Discussion forums between automobile companies and unions become common in some of the industrial clusters in West Java (interviews with FSPMI Cibitung and Karawang regions, 6 June 2012). This can be in the form of HR (Human Resources) forums that involve trade unions in discussing labour issues (interviews with Manager of Company C, 14 November and 17 December 2013). At times the forums are centered on companies of Toyota Group and their suppliers, or on Japanese automobile companies. The bipartite forums are aimed at discussing and finding solutions to industrial relations issues. Admittedly, not all of these forums include trade unions (interview with Khairul Anwar, F-SP LEM of Company A, 10 December 2013). Nonetheless, some of the union officers simultaneously also hold positions as HR staff at the companies they work for, which in turn gives them the advantage to participate in the forums exclusive to the HR departments. In sum, these kinds of discussion forums can be used by trade unions to exercise their associational power.

In October 2012, FSPMI and F-SP LEM, together with another autoworkers federation (FSP Lomenik) met in order to establish cooperation. The meeting was initiated by the IMF Asia and Pacific regional office. The meeting produced a special team that aimed to host a working group consisting of members from the three autoworkers’ federations. In the last three years, through their confederations (KSPI and KSPSI), FSPMI and F-SP LEM built alliances with other unions fighting for a range of issues, such as social security and fuel prices. These alliances not only took place at the national level, but also in certain areas, for example, Bekasi (one of the areas where auto clusters are located). The alliances, which call themselves as ‘Buruh Bekasi Bergerak’, which literally means ‘Bekasi workers move’, focus on socio-economic issues in the area, for example, the minimum wage. In 2011, FSPMI, FSP LEM and some other unions in industrial cluster MM2100 Bekasi, went into demonstrations to demand the employers’ association, Apindo, withdraw its lawsuit regarding minimum wage in Bekasi. In 2012, KSPI, KSPSI, and another trade union
confederation, KSBSI, formed an umbrella organisation called MPBI (Majelis Perwakilan Buruh Indonesia: Assembly of Indonesian Workers Representative). MPBI fights for workers’ prosperity and against workers’ exploitation. Both FSPMI and FSP LEM participate actively in demonstrations and protests initiated by MPBI, for example, on the issues about outsourcing practices and minimum wage. The tendency of workers to go into strikes or demonstrations is because workers are reluctant to go to the labour court to dispute the violations, not only because workers have less resources, but also because employers often win in the labour court.

The local people surrounding the industrial estates also play a critical role in shaping the labour control regime, which eventually affects labour agency. In this case, the analysis focuses on how local people locate themselves in the space of contention between automobile companies, industrial estate companies, and workers, and how this can be utilised to exercise and upscale labour agency. The local societal divide due to income inequality may depict varied attitudes of local people towards industrial relations within industrial estates. My interview with a supplier company located in an industrial estate that also functions as a residential area shows how the company received protection from the local people during a massive workers’ strike that occurred in the estate (interview Tunjung, HR of Company B, 3 December 2013). Meanwhile, workers also commonly reside in the surrounding areas of industrial estates. In an interview with a second-tier supplier company (interviews with Denny, HR of Company D, 16 and 29 May 2012), it was revealed that the company requires its workers to live nearby the factory in order to reduce commuting time. This is also reasonable given that workers may have to work the night shift. With workers living in surrounding areas, it is easier for trade unions, for example, to establish workers’ posts, called Rumah Buruh, or Saung Buruh, in the industrial estates, serving as a place for workers to discuss trade union and labour regulations (Mufakhir 2012). These posts, in turn, become the backbone of the actions of factories sweeping, or grebek pabrik, by workers in the industrial estates (ibid.). The local societal divide also provides room for companies to manoeuvre. As a response to the factory sweeping, companies stir up a fight between workers and the local people (Mufakhir 2012). This is illustrated by the establishment of Masyarakat Bekasi Bersatu (MBB: Bekasi People Union), consisting of several community organisations. MBB attacked and destroyed workers’ posts and their demonstration stands located in an industrial estate that also functions as a residential area.

Discussions on labour agency in the automobile sector can be summarised into several points. First, workers in this sector have a relatively higher marketplace bargaining power mainly due to their skill possession. Nonetheless, legal provisions on contract and outsourcing employment hamper this situation, particularly in the supplier companies where relatively high skill possessions are
not required. Second, the Toyota Production System (TPS), which locates workers at the heart of the management and production system, provides leverage for workers to exercise their workplace bargaining power. Furthermore, the lean manufacturing system, which mainly relies on just-in-time deliveries, allows room for workers to exercise logistical power. This is evident when workers hold strikes, which eventually affect the delivery schedule of automobile companies. Third, workers in the automobile sector have a relatively strong associational power. One of the major unions in this sector is considered militant and actively fights for workers’ rights. Residential arrangements around the industrial clusters also make it possible for workers to enhance their associational power by creating workers’ posts to discuss labour issues. This also provides an advantage to establish and mobilise an alliance between unions. The strong influence of such an alliance becomes evident when companies and local people around industrial clusters create a rival alliance together. By building a network with civil society organisations, the alliance of automobile workers’ unions actively engage with broader socio-economic issues, such as fuel prices and the social security system.

Comparing labour agency in the oil palm plantations and automobile sectors, several different and similar aspects are worth mentioning. Skill possession shapes the different marketplace bargaining power between workers in the oil palm plantation and their counterparts in the automobile sectors. For workers in the oil palm plantation sector, the situation is exacerbated with the impending agrarian reform and the liberalisation policies (e.g., investment and trade liberalisations). Meanwhile, contract employment serves an important backbone for the lean manufacturing system, largely adopted by automobile companies in Indonesia. While the legal provisions on contract employment limit the practices for certain timeframe or purposes, the provisions remain unclear and leave a room for different interpretations, which can be used by a company to hire and maintain a certain type of employment. It is a similar case for outsourcing. Legal provisions on contract and outsourcing employment undermine automobile workers’ bargaining power, particularly those in supplier companies where high skills are not required. All these imply that trade liberalisation has weakened oil palm plantation workers’ marketplace bargaining power more than that of automobile workers. In the automobile sector, however, the liberalisation policies have crippled the marketplace bargaining power of workers in the supplier companies, particularly the second-tier ones.

Second, workers on oil palm plantations have less workplace bargaining power than their counterparts in the automobile sector. Nonetheless, workers in charge of transporting FFBs may have relatively higher workplace bargaining power than their counterparts in the harvesting and maintaining sections, as the perishable character of FFB urges the immediate transportation of FFB from plantation plots to palm oil mills.
On associational power, the oil palm plantation sector, particularly those located in Sumatra, is still dominated by large unions who take the employers’ side. Independent unions have recently been founded, largely with the help from civil society organisations. However, these unions are still facing substantial challenges either from plantation companies, or from the already-established ‘pro-employer’ unions. The picture is different in the automobile sector, where unions are relatively more able to exercise and mobilise their associational power. This can be explained by some factors related to the labour control regime in both sectors. First, the fuzzy line between working and living spaces on plantations increases the control of employers, and thus limits the room for independent labour organisation activities. This is clearly not the case in the automobile sector. Second, the geographical location of plantations makes it more difficult for plantation workers to hold demonstrations attracting the attention of local government agencies and public in general. This not only undermines workers’ associational power, but also impedes the opportunities for workers to operate with discourses on labour rights on plantations. Third, while local people similarly play a vital role for workers in both sectors in mobilising and up-scaling their labour agency, the situation in the oil palm plantation sector depicts a more rampant picture of horizontal conflict, mainly related to land grabbing issues, which in turn hinders the opportunity for workers to mobilise and upscale their labour agency. As a matter of fact, land conflicts have received tremendous attention, focusing on peasants and indigenous groups, leaving less room for framing issues on labour rights. Moreover, the oil palm plantation sector in Sumatra has a longer history of labour migration compared to the automobile sector. This has seemingly led to the more embedded divide between local people and workers, who are predominantly migrants. Fourth, the previous discussions on the history of labour movement in Indonesia show a strong labour activism during the post-Independence era. As explained, the Suharto administration dissolved the Communist Party, prohibited any left-leaning organisation, as well as restricted and depoliticised labour organisations. When the country embarked into the Reformasi era, the labour movement entered into a new phase of rebuilding and revitalising labour activism. While labour unions in the automobile sector seem to be ahead in this track, findings from the case study and interviews suggest that unions in the oil palm plantation sector are lagging behind and have only recently begun this endeavour. In this pursuit, independent unions are established, mainly out of collaboration with civil society organisations, and are currently attempting to break down the domination of the pro-employer unions. That unions in oil palm plantations are lagging behind in this process can be explained by the difference in sense of class. As discussed in Chapter 5, workers on Java Island went through class tensions more and, as a result, have a more established class-consciousness. As such, it is more difficult for unions in the oil palm plantation sector to get over the legacy of Suharto’s enduring regime, which strictly prohibited an
independent labour movement and stigmatised any left-leaning ideologies. Furthermore, the history of Indonesian labour movement shows that initial organised labour and labour activism stems from workers in urban areas and metal industry. This again relates to geographical locations, which are in favour of workers in the automobile sector. Fifth, automobile workers’ unions, particularly the FSPMI, have relatively better organisation management and leadership compared to their counterparts in the oil palm plantation sector (interview with TURC, 15 November 2013). FSPMI, for example, has a well-managed membership fee, which finances the operation and activities of the union, and in turn allows for the union’s independence and militancy. Leadership is also an important factor in driving the union during the rebuilding and revitalising process. This is evident in the case of FSPMI, whose leader also serves the president of KSPI. Under Said Iqbal’s leadership, KSPI focuses not only on labour issues, but also on the broader socio-economic issues. KSPI sets both short-term and long-term goals, with the latter aimed at social welfare and social justice. In this attempt, the confederation strives to build collaboration with other labour unions and civil society organisations. KAJS (Komite Aksi Jaminan Sosial: Action Committee for Social Security) serves as a case in point for such alliance. By holding several nation-wide strikes, KAJS successfully put pressures on the government to pass Law No. 24/2011 on Social Security Provider, which assigns BPJS (Badan Penyelenggara Jaminan Sosial Kesehatan: Health Insurance Providing Body) as the provider for the national health insurance system.

Workers’ structural and associational power in the oil palm plantation and the automobile sectors explain workers’ situations in both sectors. Meanwhile, the current situation of workers in these sectors also shapes the landscape for workers exercising their labour agency. This relation can be approached by discussions on labour control regime. This demonstrates the dialectic process of labour control regime and labour agency.

Summary:

This chapter discusses workers’ situations on the oil palm plantation and the automobile sectors. Analysis of findings show how workers in the automobile sector are better off compared to their counterparts in the oil palm plantation sector. Competitive pressures resulting from trade liberalisation, however, undermine the situations for workers in automobile supplier companies, as

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99 Transport workers’ union, VTSP (Vereniging van Spoor-en Tramwegpersoneel), was founded in 1908, organising workers of both private and parastatal railway companies. Meanwhile, metal workers in Surabaya went on strikes in 1925. The strikes successfully put pressures on the colonial government to provide legal protection for workers in order to avoid more labour unrest (Saptari 2013: 12).
shown by misuse of contract employment and rampant illegal outsourcing practices. Meanwhile, such pressures articulate with the existing labour regime on the oil palm plantations, maintaining the poor working conditions in this sector. The situations are even more intensified with the employment of unpaid family labour, which includes child labour. This chapter also takes these discussions further by examining labour control regime and labour agency in these sectors. The different situations in the oil palm plantation and the automobile sectors can be explained by the different labour control regime, the different magnitude of labour agency in terms of workers’ structural and associational power, as well as the dialectic interplay between the two. The discussions on labour agency and labour control regime demonstrate the roles of the state and firms in labour relations.
Conclusions and Recommendations

This book attempts to understand the link between trade liberalisation and labour rights in labour- and capital-intensive sectors. The research question that leads this book is, ‘how do labour- and capital-intensive sectors in Indonesia respond to competitive pressures brought about by trade liberalisation?’ Employing the GPN approach, the book seeks to understand how power relations between the state, firms, and labour may provide answers to the research question.

The GPN approach employed by this research project implies a relational approach in understanding power and labour relations, particularly in the Indonesian automobile and oil palm plantation sectors. The initial step in this investigation is identifying the actors involved in each of the sector. This is important prior to identifying and analysing both the material and discursive dimensions of power in both the automobile and oil palm plantation sectors. The material dimension of power deals with sources of bargaining power exercised or that can be mobilised by the GPN actors. The discursive dimension of power takes into account how power is incorporated through norms, values, discourses, and symbols in GPNs. This book is interested in how this discursive dimension intertwines with the material dimension of power.

Analysing the material dimension of power, firms in both the automobile and oil palm plantation sectors mobilise corporate power in terms of financial, technological, political, institutional and collective power. Also, specifically important in the oil palm plantation sector is the access to land banks, partly attributed to financial power mobilised by plantation companies. Corporate power, particularly, the extent to which firms are able to mobilise various types of corporate power, shapes and is shaped by institutional power of the state. This shows how corporate power interacts with the power of the state in a dialectical fashion.

Analyses of findings reveal how trade liberalisation and the accompanying competitive pressures are responded by restructuring inter-firm relationships in the Indonesian oil palm and automobile sectors. The liberalisation measures taken by Indonesia have brought in or intensified the role of foreign companies in both the automobile and oil palm plantation sectors. In the automobile sector, whose GPN is organised into tiers of suppliers, OEM, and principals, with already predominant role of Japanese-based companies, this implies the even more intensified role played by the Japanese automobile manufacturers. These manufacturers also set regional strategies in Southeast Asian countries in order to reap the benefits from the liberalisation measures, by creating competitive pressures within the same brands or with other brands. In the oil palm plantation
sector, such responses imply the entry of foreign plantation companies, mainly Malaysian- and Singaporean-based. The competitive pressures are also responded by the sector with the vertical integration of plantation companies in both downstream and upstream segments. In the downstream segment, the large private plantation companies have entered various industries, while large companies in food, household products, cosmetics, and oleo-chemical industries remain the key leaders. In the upstream segment, smallholders and independent palm oil mills become more dependent on large private plantation companies. Analyses of corporate power (i.e., financial, economic, technological power, access to land resources, political power, collective power, discursive power) in both automobile and oil palm plantation sectors show how the mobilisation of this power shapes such restructuring.

As mentioned, corporate power interacts with the state. This is consistent with the emphasis of GPN framework on the relational approach. This book shows the role of the state in shaping inter-firm relationships in the oil palm plantation and the automobile sectors through institutional arrangements. The state also operates with certain discourses in exercising its power. Prior to liberalisation, the state played a key role in the development of both sectors. The downscaling of the state’s power following the liberalisation is evident in both the automobile and oil palm plantation sectors. Nevertheless, the state remains playing an important role. The liberalisation measures are accompanied by the reconstruction of power constellation between state and business actors. Examination of structural power shows the power struggle between market power of business actors and the power of the state. More importantly, the state’s remaining key role shows how the state is a relation of social forces and how its action and inaction reflect the contradictions inherently embodying it.

Analyses on discursive power show how both state and business actors work with certain discourses in order to justify their authority or even to increase their influence. This not only applies to state–capital relations, but also to inter-firm relations, both of which eventually affect labour relations in the sectors. The interplay of material and discursive power possessed or exercised by these actors is evident in the discussions of structural power in both the automobile and oil palm GPNs.

An important difference in the responses of both sectors is the increasingly important roles played by private voluntary governance and civil society organisations in the oil palm GPNs, which is not the case in the automobile industry. Environmental degradation and land conflict issues have led to the rise of private voluntary governance in the oil palm plantation sector. Simultaneously, the more globally dispersed the oil palm production network has increased the landscape of contentions, shown by the increasing participation of civil society organisations, both at the national and international levels. Analyses of the material dimension of power in the oil palm plantation
GPN reveal both collective and institutional power mobilised by civil society organisation and private voluntary governance. In terms of discursive power, civil society organisations also work with certain discourse in the oil palm plantation sector in order to legitimise their role and their landscapes of intervention.

The second research question posed by this book focuses on the implications on labour rights in the Indonesian automobile and oil palm plantation sectors. Analyses of findings demonstrate how workers in the automobile sector are better off compared to their counterparts in the oil palm plantation sector. Competitive pressures resulting from trade liberalisation, however, undermine the situations for workers in automobile supplier companies as shown by the misuse of contract employment and rampant illegal outsourcing practices. In order to understand these findings, however, we should also look at the labour regime and labour agency in both sectors. This nuance is important in order to escape from the trap of treating labour as a passive victim of the free trade logic of competitive pressures.

This book demonstrates how competitive pressures articulate with labour regimes in the automobile and oil palm plantation sectors. In the automobile sector, the competitive pressures articulate with the lean manufacturing system, a production and management system rooted from post-war Japan. This articulation sustains a duality of employment in the automobile sector. With increasing flexibility of the labour market, as imposed by the state as one of the several liberalisation measures, the existence of outsourced workers has been implied as being legally acceptable. In the oil palm plantations, the competitive pressures articulate with the colonial labour regime, hence, maintaining poor working conditions in this sector. The employment of unpaid family labour, which includes child labour, reflects how such situations in the oil palm plantations are even more intensified by the competitive pressures. The local labour control regimes in the automobile and oil palm plantation sectors also shape the workers’ situations in both sectors. In the automobile sector this is evident in the industrial areas, where there are interplays between different actors, representing the state and capital, in order to exercise control on labour. In the oil palm plantations sector, this is observed in plantation areas, in terms of ‘a state within a state’.

The labour regimes, including the local labour control regimes in the automobile and oil palm plantation sectors also serve as a contested terrain where workers exercise their labour agency. The local labour market as well as the production systems give an idea whether workers may mobilise their structural power. Labour migration and abundant source of workers from other parts of Indonesia, aggravated by labour regulation that allows outsourcing practices, may hinder workers in both the automobile and oil palm plantation sectors to rely more on their marketplace bargaining power. And when we also consider skill
requirement, this is even more the case in the oil palm plantations sectors, where skill requirements for working on plantations are relatively lower in comparison to those in the automobile sector. Thus, workers may need to resort to other sources of bargaining power. For instance, the just-in-time delivery allows workers in the automobile sector to mobilise their workplace bargaining power. In terms of associational power, industrial estates where automobile factories are mainly located allow workers in the automobile sector to mobilise their associational power. Meanwhile, the geographical character of oil palm plantations hinders workers on plantations to resort to an extensive associational power. In this regard, the strategy of plantation workers is to build alliance with civil society organisations.

Based on the above concluding remarks, it is clear that different situations in the oil palm plantation and automobile sectors can be explained by different labour control regimes, the varying magnitude of labour agency in terms of workers’ structural and associational power, as well as the dialectic interplay between the two. Analyses on labour control regime and labour agency also reflect the roles of the state and firms in shaping labour relations.

All these discussions show how competitive pressures brought about by trade liberalisation have different impacts on labour rights in the automobile and oil palm plantation sectors. While sectoral characteristics (e.g., capital- or labour-intensity, capital mobility, skill requirements) shape the different impacts, they are actually the products of power interplays between the state, firms, and labour. As such, this book contributes to the recent academic literature on the link between trade liberalisation and labour rights by raising power issues into the analysis of the impacts of trade liberalisation.

This book attempts to provide a relational approach in understanding power labour relations in the Indonesian automobile and oil palm plantation sectors, particularly how this gives us a nuance in the discussions on the relationship between trade liberalisation and labour rights. In this regard, the book seeks to provide a comparison between the two sectors. While this comparison provides a productive and important contribution, it is also clear that this research project suggests a closer investigation of each sector and how the GPN relational approach will shed more lights on the power interplays between the state, capital, and labour in the respective sectors. Furthermore, the book also considers the discursive dimension in the analysis of power relations in GPN as far as how the GPN actors work with this dimension in order to mobilise the material dimension of power. Thus, future research solely focusing on the discursive dimension of power in the automobile and oil palm plantations sectors is recommended. This will inevitably open up more suggestions in discussions on discursive power in the automobile and oil palm plantations sectors. Finally, this book limits the analyses of labour agency in terms of workers’ structural and associational power. This implies a future research that
employs a wider understanding of labour agency, such as that which also tackles workers’ individual agency. Such investigation will provide a broader picture on the different types of labour agency exercised by workers and how they are related to the competitive pressures in the automobile and oil palm plantation GPNs in a dialectical manner.

Analyses of workers’ situations and sources of workers’ power shed some light on the workers’ adverse conditions as well as undeveloped revitalisation of labour movement on the oil palm plantations. Labour control regime in this sector restricts the improvement for workers. Nonetheless, as mentioned above, oil palm GPN has opened more landscapes of contentions for various non-firm and non-state actors. Although discourses in this sector are still largely dominated by environmental and land conflict issues, attention to labour rights has increased. In this case, collaboration with civil society organisations needs to focus on how to raise labour issues as a significant public discourse, which in turn may put pressure on firms and the state. Discussions on labour control regime also reveal a different approach of organising workers that needs to be developed. As shown by the case study, working together with the local community surrounding the plantations would be a viable start in organising workers on the plantations. This book also suggests that the attempt to revitalise labour movement on plantations requires building workers’ awareness of the need to organise as well as consciousness of class.
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List of Interviewees

I. Firms and Business Associations
a. Chief Assistant of Estate X (3 April 2012)
b. Processing Chief Assistant of Estate X (3 April 2012)
c. Security Officer of Estate X (4 April 2012)
d. Processing Department of Company X (5 April 2012)
e. Human Resources Department of Company X (9 April 2012)
f. KPBN (12 June 2012)
g. PPKS (27 April 2012)
h. Agronomy Department of Estate Y (13 and 26 April 2012)
i. Human Resources Department of Estate Y (13 April 2012)
j. Division III Assistant of Estate Y (16 April 2012)
k. Division II Assistant of Estate Y (17 April 2012)
l. Staff of Estate Y’s Palm Oil Mill (18 and 26 April 2012)
m. Head of Marketing Department of Company Y (14 June 2012)
n. Head of Plantation Operation of Company Y (18 June 2012)
o. Human Resources Manager for Riau Region of Company Z (19 April 2012)
p. Estate Manager of Estate Z (19 April 2012)
q. Field Assistant of Estate Z (20 and 24 April 2012)
r. Field Conductor of Estate Z (20 and 22 April 2012)
s. Manager of Administration of Estate Z’s Palm Oil Mill (23 April 2012)
t. Staff of Administration of Estate Z (20 and 25 April 2012)
u. Head of Administration of Estate Z (25 April 2012)
v. Staff of Company A’s Karawang Factory (9 June 2012)
w. Manager of Company A’s Karawang Factory (7 June 2012)
x. Head of Purchasing Division of Company A (27 November and 2 December 2013)
y. Tunjung, Human Resources Department Manager of Company B (13 November and 3 December 2013)
z. General Manager of Company B (13 November, 3 and 4 December 2013)
aa. Assistant Manager of Company B (4 December 2013)
bb. Manager of Company C (14 November and 17 December 2013)
cc. Assistant Manager of Company C (24 December 2013)
dd. Human Resources Manager of Company D (16 and 29 May 2012)
ee. General Manager of Company D (16 May 2012)
ff. GAPKI (22 June 2012)
gg. Gaikindo (25 June 2012)
hh. DMSI (19 November 2013)
ii. GIMNI (19 November 2013)

II. Smallholders, Cooperative, Farmer Groups, and Traders
a. Ibu P, smallholder (10 April 2012)
b. Pak S, smallholder (10 April 2012)
c. Pak Sa, smallholder (12 April 2012)
d. Pak Z, smallholder (12 April 2012)
e. Cooperative MP (4 and 11 April 2012)
f. Pak T of farmer group MS (10 April 2012)
g. Pak Su, trader (12 April 2012)
III. Workers and Trade Unions
a. Plantation worker of Estate X (7 April 2012)
b. Plantation foreman of Estate X (7 April 2012)
c. Plantation worker, harvester, of estate X (7 April 2012)
d. Harvester’s wife/ helper, of Estate X (7 April 2012)
e. Nangkos worker of Estate X (7 April 2012)
f. Nangkos worker of Estate X (7 April 2012)
g. Plantation foreman of Estate X (10 April 2012)
h. Casual worker of Estate X (10 April 2012)
i. Worker at plasma smallholder’s plot (10 April 2012)
j. Worker at plasma smallholder’s plot (10 April 2012)
k. Worker at plasma smallholder’s plot (10 April 2012)
l. Worker at plasma smallholder’s plot (10 April 2012)
m. Plantation worker of Estate Y (16 April 2012)
n. Plantation worker of Estate Y (16 April 2012)
o. Plantation worker, harvester, of Estate Y (17 April 2012)
p. Plantation worker of Estate Z (20 April 2012)
q. Plantation worker of Estate Z (24 April 2012)
r. Five casual maintenance workers of Estate Z (20 April 2012)
s. SPTP-BUN (5 April 2012)
t. Trade union on Estate Y (17 April 2012)
u. Agus Zainal, F-SP LEM Karawang Region (11 May 2012)
v. Supriyanto, F-SP LEM North Jakarta Region (3 and 19 June 2012)
w. Khairul Anwar, F-SP LEM of Company A (3 June 2012, and 10 December 2013)
x. Syawal, Rustan, and Furqon, FSPMI Cibitung and Karawang Region (6 June 2012)
y. Juniwan, SBPI (8 November 2013)
z. Rohman, FSPMI Karawang Region (11 December 2013)
aa. Dian, Serbundo (21 December 2013)

IV. Government Agencies
a. Riau Provincial Agency of Estate Crops (11 April and 4 May 2012)
b. Riau Provincial Agency of Trade and Industry (17 April 2012)
c. Riau Provincial Agency of Investments (25 April 2012)
d. Riau Provincial Agency of Forestry (1 May 2012)
e. Riau Provincial Agency of Manpower and Transmigration (2 May 2012)
f. Riau Provincial Agency of Cooperatives and Small and Medium Enterprises (3 May 2012)
g. Ministry of Agriculture, Directorate of Processing and Marketing of Agriculture Products (11 June 2012, and 26 June 2012)
h. Ministry of Industry, Standardisation Centre (8 June 2012)
i. Ministry of Industry, Centre for Research and Development on Industry and Business Climate Policies (15 June 2012)
j. Ministry of Industry, Directorate of International Industrial Cooperation (18 June 2012)
k. Ministry of Industry, Directorate of Forestry and Estates Products (25 June 2012)
l. Ministry of Forestry, Directorate of Forest Conservation Area (19 and 20 June 2012)
m. Ministry of Manpower and Transmigration, Directorate of Industrial Relations (27 June 2012)
n. Ministry of Industry, Directorate General of Metal, Machinery, Transportation, and Electronic Industries (29 November 2013)
o. Ministry of Industry, Directorate General of Agro Industry
p. Ministry of Manpower and Transmigration (18 December 2013)
q. Ministry of Trade, Directorate General of Exports of Agro and Forestry Products (19 June 2012, and 19 December 2013)
r. Ministry of Trade, Directorate General of Exports of Industry and Mining Products (20 December 2013)
s. Indonesian Investment Coordinating Board (21 May 2012, 21 November and 13 December 2013)
t. Rosediana of Indonesian Palm Oil Commission (29 June 2012)

V. Civil Society Organisations and Social Movements
a. SPKS Riau Region (30 April 2012)
b. SPI Riau Region (30 April 2012)
c. Walhi Riau Region (30 April 2012)
d. SPI Jakarta Head Office (21 June 2012)
e. Sawit Watch (20 June 2012)
f. Greenpeace Indonesia (22 June 2012)
g. TURC (15 November 2013)
h. Serikat Tani Nasional (26 November 2013)

VI. Other Institutions
a. Sucofindo, Certification Body (6 November 2013)
b. RSPO (29 November 2013)
Competitive Pressures and Labour Rights
The Indonesian Oil Palm Plantation and Automobile Sectors
Labor and Globalization | Volume 19
Hariati Sinaga

While the link between trade liberalisation and labour rights has been mostly studied at a national level, this book analyses this relation at a sectoral level. It draws on case studies of oil palm plantations and the automobile sector in Indonesia. Two main research questions guide the book:
1. How do labour- and capital-intensive sectors in Indonesia respond to competitive pressures brought about by trade liberalisation?
2. What are the implications of such responses on labour rights in the two sectors?

Employing the Global Production Network approach, the book analyses power relations between the state, firms, and labour. It shows how competitive pressures brought about by trade liberalisation have different impacts on labour rights in the automobile and the oil palm plantation sectors. While sectoral characteristics (e.g., capital- or labour-intensity, capital mobility, skill requirements) shape the diverse impacts, they are actually products of power interplays between the state, firms, and labour.

Key words: Trade liberalisation, labour rights, employment, labour regime, labour agency, global production networks, palm oil, automobile, Indonesia

Hariati Sinaga has recently finished her PhD at the University of Kassel, Germany. Her research interests are labour rights, trade liberalisation, global production networks, and gender.
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