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**AN AGRICULTURAL BUSINESS MODEL FOR COMMUNITY DEVELOPMENT:**

**A CASE STUDY OF INCA INCHI BUSINESS IN KACHIN STATE, MYANMAR**

**Abstract**

In recent decades, third world countries have entered into contract farming mechanisms that integrate the agricultural production with the exportation of agribusiness products. As such, Myanmar contract farming in the Kachin state is in the forefront of production of cash crops involved in export and processing. A contract such as this is explored throughout my study of the Inca Inchi contract farming in the Kachin state. The contract farming agreement through the agribusiness production links the Kachin farmers with the national and world markets.

The purpose of this paper is to analyze the social, economic and political implications of the Inca Inchi contract farming to the people of Kachin state. The study is designed as a case study on the situation in Kachin State, Myanmar. These Case Studies were qualitative in nature and included interviews, focus groups, and observations. The thoughts and opinions of local farmers in the area as well as companies, religious leaders, government officers, and civil society organizations will be analyzed using content analysis.

In this research, three main concepts are highlighted, which are the social, economic and political effects of Inca Inchi to the Kachin farmers. The research is conducted in two villages, one of which has been successful and the other unsuccessful in growing Inca Inchi. In the research, I consider the roles and interests of the Kachin Independence Organization (KIO), Myanmar's military government, and the Kachin farmers themselves.

This study found out that the Inca Inchi contract farming has been responsible for many social developments such as schools, gender empowerment, health care and support of the refugee camps. Improved livelihoods, independence of the farmers and potential increased income are among the economic advantages of the contract farming. Lastly, the study found that peace has been attained in the Kachin state and there has been a more organized hierarchical order in the state. In this context, Inca Inchi contract farming represents a livelihood strategy for many Kachin growers.

**Key words:** Agriculture, Inca Inchi, Economic development, Political development, Social development, Kachin State, Myanmar

## **Introduction**

Agriculture is the backbone of Myanmar economy. Since agriculture has an important role in economic progress of any nation, most nations have a significant investment in improving and encouraging growth of the agricultural sector. Modern technologies are being continuously introduced to improve the agricultural sector. Due to the variation of land topography and suitability of soil in Myanmar, these new technologies and products are performing well in the agricultural sector of Myanmar. Inca Inchi is one of these new products. This plant is making drastic changes to the whole agriculture sector with both its advantages to human life as well as its high selling price; which generates an economic benefit. This paper tries to explore the overall impact that Inca Inchi has already had on economic and social development in the Kachin state, Myanmar as well as its potential as a large-scale substitute for opium in the area. Research into this topic will aid in promoting the organic industry and, in the long-term, help in providing job opportunities for those looking for an alternative to farming opium as well as to break the export cycle of opium.

Socio-economic conditions in the borderland area depend on the political legacies of Myanmar, especially those of civil war. Overall the Kachin State, including Mansi

Township and the borderland area, suffered from warfare that seriously affected the people. Consequently, as shown by what Gai Daw and Dum Buk villages experienced, the network from the Burmese military government is not available in this borderland area. Economic conditions deteriorated and people were unable to meet even their basic needs. People lived through direct fighting until right before the ceasefire agreement in 1994. However, major socio-economic changes began just after the ceasefire in 1994.

Myanmar's agriculture sector finds itself in the early stages of an accelerated but only partially completed policy of liberalization. There was tight state control over agricultural land rights, crop choice, and production decisions, as well as marketing, trading, and pricing, initiated during the socialist period (1962–1987), this resulted in diminished incentives and poor agricultural performance. This has lingered despite partial liberalization starting with pulse marketing and exports in 1988 and with rice in 2003. Agriculture performance in recent years has created significant changes through business contexts, which has allowed national development through careers domestically and internationally. Development has happened in various areas. To specialize in essential terms of development, and particular activities that indicate a part of development, this paper aims to explore some priority agricultural areas where Inca-Inchi farming has created an impact on local communities.

The Inca Inchi business model is a procedure whereby farmers in the Kachin state are able to receive seeds from a company in order to produce Inca Inchi. Inca Inchi seeds are supplied through the church that is closer to the people, farmers receive seeds at a cost of 100 baht and later they sell the produce to the company. The same company, which sells the seeds, helps in the provision of farm education and the distribution of pesticides in times of infestation. The Inca Inchi models have targeted people in the government-controlled areas which is seen as a way to boost for a better life. Land usage has been in demand since more people are shifting to farming.

Business models began to adapt to economic behaviors with a business-trading approach since before the classical period (Teece, 2010). The Business model concept enhances pragmatic business achievements. A business model is more likely to be a set of assumptions or hypotheses (Osterwalder, 2013). This study aims to analyze the social, economic and political developments of the Kachin village after the introduction of the peanut farming. To answer these three questions shall help me understand the situation that are:

1. How has the village changed in the last 10 years?
2. What is the process in which the Inca Inchi peanut get into the village?
3. What is the estimation of cost and benefit of contract farming?

## **Theory**

The concept of development is defined and conceit in various dimensions. In social science, development concepts are discussed to improve existing contexts. In the 1940s to the 1950s, Keynesian growth theory (Fletcher, 1989) mentioned that development is a process of capital formation that is determined by saving and investing, when national savings challenge investment productivity. Consequently, the growth that occurs drives the markets. Later, in 1970s by Keynesianism, Neoliberal Development Theory was more emphasized on supply chain sides in development. More private initiatives and markets allow economic growth. State intervention and centralized planning were gradual in order to industrialize society from the top to the bottom which increases more benefits to all social classes. Another original development theory was mentioned by sociologist, Max Weber in 1864s-1920s. The Original paradigm suggested that economic dimension alone was insufficient, the system required additional theories on institutional and social changes (Max Weber, Hans Heinrich Gerth)

Inca Inchi business model is a form of a contract farming that refers to the production and supply of peanut seeds under advance contracts, the essence of this contract is a commitment of the Kachin farmers to provide the peanut at a time and a price, and in the quantity required by the company that gives them the seeds. This involves four elements: pre-agreed price, quality, quantity and time. The way Kachin farmers perceive the Inca Inchi business model, i.e., define their relationship with companies differs across the country. There is so much diversity in the type of firms, farmers, nature of contracts, crops, and socioeconomic environment that it is better to focus on specific situation than the generic institution of the business model. The benefits of Inca Inchi business model to the Kachin Farmers at large depends on state policies for agricultural development in general; therefore, it is important to recognize the role of the state in encouraging or discouraging the agribusiness firms and in protecting the producers in contract situations. In addition, there are certain sectors that may require a more effective public sector or state intervention especially in technological and institutional innovations, instead of private agribusiness efforts.

## **Research methodology**

The study focuses on the economic, politics and community developments achieved after contract farming of Inca Inchi in the Kachin state and its impact on income, employment and access to credit by contract farmers. The advantages of contract farming for small landholders have been evaluated and a comparison has been done between the advantages of contract farming with foreign and domestic firms. Multistage sampling methods were used to choose the sample farmers. In the first stage, based on the concentration of area under Inca Inchi contract farming, one domestic and one foreign firm were selected. At the second stage, after discussions with the production manager of the company, a cluster of villages participating in contract farming was chosen. Finally, based on the farmer's details, around 20 contract farmers were maintained by the firm.

The method of purposive sampling is being used to improve the sample of the research under discussion. According to this method, sample members were selected based on their knowledge, relationships and expertise regarding their link to the Kachin state. In this study, the interview sample is related to the topic under investigation, and they have relevant relations with the Kachin people especially the farmers. They also have an understanding as well as an informed background about the area under study. In my study, my population of interest is the Kachin farmers whom the researcher wants to generalize results. The following guided the researcher in choosing the Kachin interviewees.

- Type of contract they have with the Company.
- Type of the company (local or foreign)
- The amount of land they have. Inca Inchi business model can be understood from the perspective of small scale business owners and others who own chunks of land.
- Gender: This study is scheduled to interview both men and women
- Age: this study shall mainly target youths and elderly people who own land.

## Literature review

The literature review is concerned with three main concepts: Economic security, community security, and political security of the people of the government controlled area of the Kachin state. The review of the literature indicates that economic security is highly dependent on the governance of the Kachin people hence results from a secure society about issues like decision making and resource distribution at the community level are relevant. In the same manner, community development helps improve Myanmar security since the overall internal security depends on the well-being of a given state or a given community. Development on the other hand, is dependent on economic and the political security that is a requirement for a peaceful environment that is conducive for the prosperity of the local investment. As a result, a peaceful environment helps bring progress in all aspects of human life. In this manner, this section will explain the relationship between these concepts: economic security, community security and political security in the Government controlled area of the Kachin state.

Due to the immigration of Shan people to Kachin, Buddhism is a major religion in Myanmar, representing 64% (Department of Population Ministry of Labor, Immigration and Population, Myanmar, 2016) of people in Kachin and occupying massive belief, while Christian is the second majority at 33.8%. Furthermore, the development from Animist to Christian is due to the introduction of British colonization. The remaining population is represented by Protestant and less by Roman Catholics (Bureau of Democracy, Human Rights, and Labour, 2013). Nonetheless, Islamism, Hinduism, and others are 1.6%, 0.4%, and 0.2%, respectively.

The most popular traditional languages in use are ‘Jingpho, Jinghpaw, or Chingpaw’ (Hertz, 1911), while Burmese language is of lesser use, mostly for minorities. After 1984 after the independence of Myanmar from British, Jingpho<sup>1</sup> was used less and was replaced by Burmese for business purpose. Consequently, the newer generation of Kachin seems to use less traditional language unless learning as an extra in school. In addition, some of Kachin’s ethnic groups still use their own language such as Zaiwa, Rawang and Lisu minority groups are communicating in Lisu and Lipo.

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<sup>1</sup> Still, more than 500,000 of Kachin citizens using Jingpho. Source: retrieved on 27<sup>th</sup> December 2016 from <http://encyclopedia2.thefreedictionary.com/Kachin+Language> <sup>4</sup> 3% of GDP.

The education system in Kachin State is mainly based on memorizing facts. Even the development by Non-Government Organizations have played more roles to promote, the majority of Kachin citizens still lack the ability to apply an analytical thinking process. However, ten universities were established to serve educational development, by mostly focusing on technologies (Myanmar - Department of Higher Education, 2016).

According to the central government healthcare in Myanmar (Anwar, 2007), the public service in public hospitals is free of charge or available at a low cost; therefore, the spending on human health has remained low in rankings among the world<sup>[4]</sup>. That is referring to the case study of Kachin where the level of the overall developments has stayed lower than the ranking in those central economic cities like Yangon and Mandalay. To be compared, including with drug issues, Kachin is even worse<sup>2</sup>.

Kachin state in recent days has been being developed by the state itself. Political shifts are occurring by slowly transferring power from the central Burmese military to the Kachin Independence Army (KIA) (Myanmar Captures Key Rebel-Held Outpost, 2013). The KIA has transformed the economic system to become more capitalistic. The economic development requires massive investment to sustain its mechanism. International corroboration between China and Myanmar has influenced Kachin in terms of foreign direct investment (FDI) significantly. Nonetheless, this rich natural resource state has to exchange its natural resources via a trade agreement (Global Witness, 2005) with further building of infrastructural developments to create economic potential and sustainability. As a result, more Chinese investors have come into Kachin state for further business investments.

After the Kachin Independent Organization (KIO) formation in 1961, armed itself against the central government on discrimination and economic marginalization issues, the situation became serious. The economic support by the Yunnan Province strongly contributed to the political development of the independent group. In 1968, the formation of the New Democratic Army – Kachin or NDA(K), joined with the KIA and the Communist Party of Burma (CPA), which has played a role in more key developments in forming new Kachin governance resulting in the increase in economic resources; such as logging, gold mining and agriculture. Later, due to tensions around national resource sharing, the split created fighting

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<sup>2</sup> In 2003, 43 hospitals are located in Kachin State with 1,530 beds available that were counted as 5.53% and 4.68%, respectively. Source: Hospitals and Dispensaries by State and Division, Department of Health Planning, 2003. Retrieved date 26 Dec, 2016 from <http://www.etrademyanmar.com/STATS/s0413.htm>

in territory Kachin Special Region 1, on the Chinese border between Kambaiti and Hpimaw (see figure 1.3). In 1991, KIA's 4<sup>th</sup> Brigade separated from the KIA to sign a ceasefire agreement with SPDC<sup>3</sup>. Since then, the Kachin Defense Army (KDA) has become an official local military government force. Thus, SPDC asked KDA to look after loggings as a main source of income for the Kachin capital financing resource in Shan State Special Region 5. Later in 1994, SLORC<sup>4</sup> ordered KIA to control part of the Chinese borders in the Kachin State Special Region 2, till now (2016).

## **Discussion and Analysis**

Contract farming provides farmers with a reliable outlet for their production, at a predetermined price. The alternative is to grow or rear a product and then hope that someone will buy it, a very risky undertaking. By growing to the quantity specifications of the company, farmers minimize unnecessary time and resources spent on producing something they cannot sell or have to sell at a give-away price. For contract, farming to work it has to be a “win-win” for both companies and Kachin farmers. So, what are the potential advantages for farmers? First, it is generally easier for them to obtain productivity enhancing inputs. In many rural areas, there are no companies supplying seeds, fertilizers, chemicals, etc. or, if there are, they often have little stock. Life is made easier for farmers when the companies take over responsibility for organizing input supply. Second, it can also be very difficult for farmers to obtain credit for their agricultural activities. The fact that companies are prepared to provide inputs without payment until the crop is delivered removes Kachin farmers' need for credit. Sometimes companies are also prepared to advance inputs for family food crops. Working under contract provides farmers with extensive advice where they can learn of new techniques involved in farming, although in a few cases extensive support offered by companies has also proven ineffective since they focus on Inca Inchi planting. Kachin farmers have access to land preparation services that, again, are often not available to farmers without a contract.

Kachin farmers benefit from additional employment opportunities arising from contracts since they often face high transaction costs when selling Inca Inchi seeds directly. In

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<sup>3</sup> SPDC knew as State Peace and Development Council from 1988 to 1997s.

<sup>4</sup> SLORC knew as State Law and Order Restoration Council began in 1997s, which had replaced the role of Burma Socialist Program Party (BSPP) from 1988 to 1997s. SLORC was abolished and reconstituted as the he State Peace and Development Council (SPDC).

the early development literature, this was referred to as the ‘unemployment’ problem and explained in terms of seasonal patterns of labor demand. As discussed before, this type of unemployment results in shadow prices and underlying transaction costs. Farm contracts provide a way to minimize some of these costs because Inca Inchi production is usually labor intensive, reflecting both its horticultural nature and contractor requirements for high quality.

A common outcome of contracts is that Kachin women and younger family members raise the power of women in the family by increasing the dependence of the family unit on their production. Women's subjective feelings about contract experience were positive in terms of improved self-esteem, self-confidence, and feeling more powerful. This was particularly so for female farmers employed and those who owned the contracted production. These women were often recruited to work in domestic help positions, however, this trend is ending because contract farming offers means of employment.

Since most of the Kachin's plantations were established after the conflicts under the military government, land was relatively plentiful and the military powers had few scruples about either simply annexing it or paying landowners minimal compensation. That is, fortunately, no longer the situation. Most large tracts of suitable land are now either traditionally owned, costly to purchase or unavailable for commercial development. Moreover, even if it were possible for companies to purchase land at an affordable price, it would rarely be possible to purchase large enough parcels of land to offer the necessary economies of scale achieved by estate agriculture. Contract farming, therefore, offers access to crop production from land that would not otherwise be available to a company, with the additional advantage that it does not have to purchase it.

The failure to supply agreed contracts could seriously jeopardize future sales. Inca Inchi contract farming offers reasonable supply reliability. Sponsors of contract farming, even with the best management, always run the risk that farmers will fail to honor agreements. On the other hand, plantation agriculture always runs the risk of labor disputes. In the case of Inca Inchi production, some companies do prefer estate rather than contracted production.

Farmers must have suitable land on which to cultivate their contracted crops. Problems can arise when farmers have minimal or no security of tenure, as there is a danger of the sponsor's investment being wasted because of farmer landlord disputes. Difficulties are also common when sponsors lease land to farmers. Such arrangements normally have

eviction clauses included as part of the conditions. In Myanmar, land rights are determined not only by individual but also by the type of ownership and land use. When international donor organizations insisted on having a legal titleholder for contracted crops, resistance to giving women formal titles to land was shown by male household heads. The objection was based on the fear of permanent land alienation that could occur as the result of matrimonial disputes.

Promoting agriculture through contracts is also a cultural issue. In communities where custom and tradition play an important role, difficulties may arise when farming innovations are introduced. Before introducing new cropping schedules, sponsors must consider the social attitudes and the traditional farming practices of the community and assess how a new crop could be introduced. Customary beliefs and religious issues are also important factors. For example, Easter for some Christians is an inappropriate time for sowing vegetable crops. Harvesting activities should not be programmed to take place during festivals, and failure to accommodate such traditions will result in negative farmer reaction. It must also be recognized that farmers require time to adjust to new practices. In contract farming, quality inputs such as: seeds, fertilizers, and plant protection chemicals are provided to the farmers at their farm gate, along with technical advice on production aspects. This not only reduces the working capital needs of farmers but also substantially reduces their transaction cost per unit of output. Contract farming has helped the small farmers to improve their income levels. The government should facilitate contract farming in feasible areas.

## **Conclusion**

Contract farming is one of the most important signatures in the modern agriculture. It is proposed to help farmers reduce risks, save transaction costs, and improve production efficiency/profitability. There are a bunch of studies examining those advantages in the livestock sector. However, research in the crop sector is relatively lacking. Because of the data limitation, instead of examining the effect of contract farming on farmers' profitability, the objective of this study is to examine the effect of contract farming on the average returns to farmers using contracts.

Farmer representatives may not always understand how the private sector works. In addition, it cannot be denied that many farmer organizations have collapsed in the past and

this is a risk that companies don't want to take. They are also slightly concerned that messages to farmers may be altered down when a farmer organization acts as an intermediary. Being a member of an association or cooperative and being involved with contract farming can also be time-consuming for farmers: not only do they need to attend meetings to discuss the contract but they also need to attend meetings called by the association.

Finally, there is some evidence that farmers are safe when they see religious leaders mediating on behalf of the company. This study suggests that things work best when the organization exists mainly to service the contract farming operation. General-purpose cooperatives or farmer associations have too many other things to worry about to devote enough attention to making sure the contract is a success. Furthermore, where there is more than one association supporting a contract, the terms and conditions of the contract should be the same, and the companies should not be competing for farmers.

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