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AEC2015: Implications for Investment in ASEAN Agriculture

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Synopsis

Successful implementation of the AEC2015 should have a positive impact on ASEAN's agri-food sector, leading to improved food availability for the region and increased exports. Sadly, early signs are not encouraging. Major constraints apparent on investment need to be addressed.

Commentary

INVESTMENT HAS long been a key engine for inclusive growth and development. Through the ASEAN Economic Community (AEC) 2015 agenda, the region aims to establish a unified and harmonised market and usher in fresh investment. However, most recent reports show that the AEC agenda has been falling short of reaching target goals on investment liberalisation measures. Identifying the specific constraints will be critical to hasten progress and improve food security conditions in the region.

Until this century, agriculture was a major source of employment for much of ASEAN. Currently, agriculture's contribution to the economy of individual ASEAN states ranges from less than 1% of GDP (Singapore, Brunei Darussalam) to more than 30% (Laos, Cambodia, Myanmar). Notwithstanding this, ASEAN is a major producer of key food, fruit and industrial crops as well as aquacultural products, which generate sizable export revenues across the region. Intensifying investment in the agri-food sector will provide critical support not only in raising productivity growth to drive income uptrends in the agri-food sector but more importantly to uplift the welfare of agriculture dependent low-income sectors of ASEAN.

The agri-food sector in AEC2015

AEC's progress across the four main pillars is monitored through a scorecard mechanism undertaken in biennial phases, starting with phase 1 (2008-2009), and ending with phase IV (2014-2015). Key areas from each pillar are rated in terms of target measures achieved in each phase. Based on the recent AEC scorecard report for phase 2 in 2012, Pillar 1 or the single market and production base pillar which includes goals on investment flows, showed the lowest implementation rate.

Furthermore the investment measures, which are subsumed under pillar 1, recorded the least improvement on targets reached as compared with other key areas. The laggard performance of the pillar 1 agenda therefore stands as a decelerator of agricultural development, since investment is a key growth driver for the sector.

Constraints on investment

Enforceability of Agreements: Roadblocks exist in enforcing regional agreements. Currently, the ASEAN Comprehensive Investment Agreement (ACIA) is the prevailing agreement governing regional investment. The agreement merged the promotion and protection provisions of the ASEAN Investment Guarantee Agreement (AIGA) with the liberalisation and facilitation elements engendered in the ASEAN Investment Agreement (AIA). Most investment agreements subsume clauses that defer implementation of particular measures such as temporary exclusions (TEL) and the sensitivity list (SL), which originally were in AIA.

These lists elaborate the conditions and sectors that are cordoned off from foreign investors. The majority of restrictions target not only the agriculture sector but food-related activities and services under the manufacturing sector (i.e. food processing). Foreign participation is strictly curbed by setting foreign equity percentages, hiring quotas and export requirements. While the single reservation list of ACIA offers more progressive and definite elimination of restrictions, there remains leeway for modification of commitment.

This means member countries have the flexibility to withdraw or modify their reservation list subject to compensatory adjustments. It is not surprising that protectionist reflexes are triggered in negotiating agreements due to the economic importance and inherent sensitivity of agricultural issues. However these restrictions defeat the very goal of AEC to establish a unified and competitive ASEAN market. It is most essential that member countries would follow through by phasing out restrictions.

Diversity in Policy Formulation: ASEAN is the epitome of diversity. With different sectorial priorities, institutional impediments and dissimilar natural endowments to consider, policy formulation and implementation in the agriculture sector becomes highly politicised. The degree to which member states maintain strategic controls on investments is more prominently observed in the agriculture sector and food manufacturing sub-sectors than other sectors.

For instance the lengthier exemptions in the 37-page reservation list of Indonesia as compared to the 9-page reservation list from Cambodia show discernible disparity in terms of the extensiveness of measures undertaken by each country. These differences raise questions on unequal gains made possible by integration. It is important to ensure that disparities in controls does not exacerbate the development gaps but rather, serve to strengthen comparative advantages across member states.

Investment Climate: The investment agreements are intended to improve the attractiveness of ASEAN as an investment destination. However, based on ASEAN FDI data, intra-ASEAN investment remains low as compared with extra-ASEAN investment sources. This means that the preferential advantages of the AEC2015 agenda are not being fully optimised. Across industries, foreign investment in the agriculture sector still takes up a meager share of investment inflows. Considering that many ASEAN economies remain agriculture-dependent, these less than stellar figures show the sector at a disadvantage. Part of the challenge is agriculture's inherent vulnerability to varied forms of risks (e.g. weather vagaries), which is a major drawback given the private investor's intrinsic aversion to risks.

Easing the bottleneck

Thus, for the agri-food industry it takes more than promoting an investment-enabling environment; it would necessitate managing these risks through further investment on agricultural research and technological innovations (e.g. weather resilient crops) as well as sustainable farming practices. The private sector's involvement will be crucial for these goals to reach fruition. By and large, the attractiveness of a regional bloc such as ASEAN as an investment destination still remains, with considerable "upside" for intra-ASEAN investment growth on both upstream and downstream business links in the agri-food industry.

The sluggish progress towards investment liberalisation is a bottleneck in realising agricultural development gains. Stronger commitment and intensified efforts from each ASEAN member state in easing restrictions are necessary to accelerate progress. The role of the state is paramount in achieving these goals because ASEAN as an entity only has limited authority over its members. The national government holds the sovereign power to implement rules and take policy action.

The complementary role of the private sector in boosting investments is fundamental to accelerate progress. Although the full realisation of AEC by the Dec 2015 deadline is generally considered foregone, prioritising and streamlining the investment bottlenecks will catalyse development in the agri-food sector and more importantly enhance regional food security.

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