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**Research Report**

## Promoting constructive agriculture and food investment in ASEAN

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# Promoting Constructive Agriculture and Food Investment in ASEAN

by Azizah Nazzala Fauzi & Nisrina Nuraini Nafisah

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**Policy Paper No. 44**  
**Promoting Constructive Agriculture and  
Food Investment in ASEAN**

**Authors:**

Azizah Nazzala Fauzi & Nisrina Nuraini Nafisah  
Center for Indonesian Policy Studies (CIPS)

Jakarta, Indonesia  
December, 2021

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## GLOSSARY

**ADB:**

Asian Development Bank

**AEC:**

ASEAN Economic Community

**AIFS -SPA FS:**

ASEAN Integrated Food Security - Strategic Plan of Action on Food Security

**ASEAN:**

Associations on Southeast Asian Nations

**ASEAN RAI:**

ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry

**ASEAN-SAS:**

ASEAN Sustainable Agricultural System

**BERNAS:**

Malaysian National Rice Corporation

**BRIA:**

Better Rice Initiative in ASEAN

**BULOG:**

Indonesian Bureau of Logistics

**BUMN:**

Badan Usaha Milik Negara

**FAO:**

Food and Agriculture Organization

**FDI:**

Foreign Direct Investment

**SOE:**

State Owned Enterprise

**NFA:**

The Philippines' National Food Authority



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**PPP:**

Public - Private Partnerships

**SSEZ:**

Sihanoukville Special Economic Zone

**VINAFOOD I:**

Vietnam Northern Food Corporation

**VINAFOOD II:**

Vietnam Southern Food Corporation

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## EXECUTIVE SUMMARY

Food security is an urgent issue in Southeast Asia, with its growing population, high malnutrition rate, and decreasing agricultural productivity. COVID-19 pandemic restrictions have exacerbated the situation, making food less available and less affordable, especially for vulnerable communities.

The Association of South-East Asian Nations (ASEAN) pursues food security through the ASEAN Integrated Food Security framework and Strategic Plan of Action (AIFS-SPA FS). Established following the 2009 financial crisis, this voluntary framework promotes sustainable food production by improving agricultural infrastructure and adopting new technologies. It recognizes the importance of equal participation by all stakeholders and of limited resources in the public sector. AIFS-SPA FS thus encourages investments through public-private partnerships (PPP).

In addition to greater private sector involvement, foreign direct investment (FDI) may benefit farmers as well as contribute to ASEAN food security. Generally, FDI in agriculture has improved food production quality, capacity, access to quality food, and encouraged an efficient and transparent food supply chain. However, FDI inflow in agriculture to ASEAN has been declining since 2015. Average annual FDI inflow to ASEAN agriculture from 2016–2019 was 26.89% lower than in 2015. In 2019, agriculture constituted less than 10% of total FDI inflows to the region (ASEAN Statistics, 2021a). By comparison, FDI inflows in manufacturing and financial and insurance activities represented 35% and 32%, respectively (ASEAN Secretariat, 2020b). The dominance of state-owned enterprises (SOEs) and similar agencies, as well as investment restrictions have reduced ASEAN attractiveness to foreign investors. ASEAN scores 0.20 on the OECD FDI regulatory restrictiveness index, higher than both the OECD average (0.07) and non-OECD average (0.13), indicating more restrictions (OECD, 2021).

Investment in agriculture can be risky and vulnerable to practices such as land grabbing or corruption. ASEAN has prepared a guide for both public and private actors to ensure profitable and sustainable investments. AIFS-SPA FS refers to the ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture, and Forestry (ASEAN-RAI) for investment criteria. It promotes information transparency and inclusivity for stakeholders, including small scale farmers and the indigenous community, to ensure investments are beneficial for sustainable agriculture.

ASEAN should encourage harmonization between ASEAN Member States on commitment to FDI, encourage greater private sector participation, and address the domination of SOEs in the ASEAN agri-food sector through AIFS-SPA FS. The roadmap and information on the progress of AIFS-SPA FS implementation and investment projects must be accessible to the public in the spirit of ASEAN-RAI's principles of transparency and accountability. Following the improvements on AIFS-SPA FS, ASEAN Member States should create a forum of exchange of knowledge and practices to address the governance and capacity gap and encourage an environment conducive to private sector participation.

# OVERVIEW OF THE ASEAN INTEGRATED FOOD SECURITY FRAMEWORK - STRATEGIC PLAN OF ACTION ON FOOD SECURITY (AIFS-SPA FS) AND AGRICULTURE INVESTMENT DYNAMICS IN ASEAN

Climate change and the global logistical disruption during the COVID-19 pandemic have all acted to exacerbate global food security challenges. The ASEAN region is especially vulnerable to food security challenges and disruptions to the global food supply due to its longstanding malnutrition problem. For children under five years, the prevalence of stunting<sup>1</sup> in ASEAN in 2020 was 27.40%, higher than the 2019 global average of 21.30%. The prevalence of wasting<sup>2</sup> in 2020 was 8.20%, compared to the global average at 6.90% (Global Nutrition Report, n.d.).<sup>3</sup> Investment in agriculture in ASEAN Member States declined through 2020, making the problem more urgent.

The ASEAN region is especially vulnerable to food security challenges and disruptions to the global food supply due to its longstanding malnutrition problem.

Regional integration through the ASEAN Economic Community Blueprint 2025 includes a food security agenda that aims to enhance regional value chains and participation in global value chains through increased food production efficiency, improved infrastructure and technology, aligning food quality and safety with global standards, and increased investment in agriculture. The roadmap to achieve ASEAN Economic Community food security objectives is provided through the ASEAN Integrated Food Security framework and Strategic Plan of Action on Food Security or AIFS-SPA FS. Successful implementation is urgent to help ASEAN Member States pursue strategies for a stronger and more resilient food supply chain.

AIFS-SPA FS encourages the expansion of investment to safeguard the region's food security against current and future disruptions. However, domestic policy bottlenecks for investment remain within ASEAN Member States and constitute a potential barrier to regional investment and economic growth (Yean, 2020; Zhou & Tan, 2020). Missing from the discussion has been a closer analysis of AIFS-SPA FS to determine whether it can improve the quality and quantity of investment in food security and help ASEAN Member States address their policy gaps.

<sup>1</sup> Stunting is defined as a growth and developmental disorder among children due to malnutrition, repeated infections and inadequate psychosocial stimulation. If a child's height-for-age is more than two standard deviations below the WHO median child growth, the child is defined as stunted (WHO, 2015).

<sup>2</sup> Wasting is defined as a condition where a child's weight-for-height is below average due to recent and rapid weight loss or failure in gaining weight (WHO, n.d.).

<sup>3</sup> Data are estimates provided by UNICEF/WHO/World Bank Joint Child Malnutrition Estimates Expanded Database.

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AIFS-SPA FS investment provisions are insufficient to help ASEAN Member States address policy bottlenecks and increase accountable and transparent investment in agriculture. The investment provisions should be improved by including standardized investment policies and encouraging transparency and knowledge exchange to facilitate the constructive investment needed to achieve ASEAN food security objectives. The discussion in this paper will introduce AIFS-SPA FS and its contribution to regional food security and investment before analyzing the capability of the framework's provisions to encourage constructive investment with existing domestic policy gaps given the region's specific challenges.

## Overview of AIFS-SPA FS

First adopted in 2009 against the backdrop of a food crisis in 2007–2008, AIFS-SPA FS consists of non-legally binding guidelines and recommendations voluntarily implemented by the ASEAN Member States to ensure long-term food security, improved nutrition, and improvement of ASEAN farmers' livelihood. Food security is an ongoing issue of concern and ASEAN planning documents are renewed every five years to adjust with the latest regional and global dynamics. The 2021–2025 ASEAN Integrated Food Security framework has seven key objectives, largely the same as in the 2016–2020 document. These objectives include promoting a market conducive to trade in agriculture inputs and commodities, ensuring food quality, nutrition and safety, and operationalizing regional food emergency relief arrangements such as the ASEAN Plus Three Emergency Rice Reserves. New to the ASEAN Integrated Food Security framework are principles that approach food security with actions to eliminate the root causes of hunger and poverty, including progressive improvement of access to adequate food for all. The focus on the root causes of hunger, poverty and the pandemic requires the framework to revise its objective so that food is affordable especially during crises.

AIFS-SPA FS consists of non-legally binding guidelines and recommendations voluntarily implemented by the ASEAN Member States to ensure long-term food security, improved nutrition, and improvement of ASEAN farmers' livelihood.

The Strategic Plan for Action on Food Security is meant to implement the ASEAN Integrated Food Security framework. It comprises nine Strategic Thrusts, each with output, guiding action programs, and lead agencies assigned to support its implementation. The Strategic Plan of Action should refer to other relevant ASEAN documents, such as the ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry (ASEAN RAI), which supports AIFS-SPA FS implementation.

The deliverables and activities in the AIFS-SPA FA and ASEAN RAI are presented in Table 1. Strategic Thrust 5: Encouraging Greater Investment in Food and Agriculture is the primary target of analysis in this paper.

**Table 1.**  
**Example of Investment-Related Components in ASEAN Integrated Food Security Framework and Strategic Plan of Action on Food Security 2021–2025 and ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture, and Forestry (ASEAN RAI)**

Documents	Component/ Lead Agencies	Outputs and Activities	Deliverables
AIFS-SPA FS	<p><b>Strategic Thrust 5:</b> Encouraging Greater Investment in Food and Agriculture</p> <ul style="list-style-type: none"> <li><i>Lead Agencies:</i> ASEAN Member States, ASEAN Business Forum, ASEAN Chamber of Commerce, ASEAN Sectoral Working Groups on Crops/ Agricultural Cooperatives/ Fisheries/ Livestock, ASEAN Secretariat, ADB, FAO</li> </ul>	<p><b>Output 5.1 Sustained expansion of investments in food and agri-based industries</b></p> <ul style="list-style-type: none"> <li><b>Activity 5.1.1</b> Prepare roadmaps for demand-oriented agri-based and food regional value chains to benefit SMEs and facilitate coordination of investments based on public-private as well as public-community partnerships along demand-oriented agri-based food regional value chains.</li> <li><b>Activity 5.1.2</b> Support agri-based and food regional supply chain development through closer public-private partnership (PPP).</li> <li><b>Activity 5.1.3</b> Support ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry implementation.</li> </ul>	<ul style="list-style-type: none"> <li>Roadmaps to develop agri-based regional supply chains</li> <li>Preparation of pre-feasibility studies and investment opportunities</li> <li>Effective agri-based and food regional supply chain</li> <li>Greater investment in agri-based and food regional supply chain</li> <li>Greater responsible investment in food, agriculture and forestry</li> </ul>
ASEAN RAI	<p><b>Component/ Lead Agencies</b></p> <p><b>Guideline 8:</b> Respecting the Rule of Law and Transparent Governance Structures, Processes and Grievance Mechanism</p> <p><b>Guideline 9:</b> Assess and Address Impacts and Promoting Accountability</p>	<p><b>Points of Consideration for Private and Public Sectors</b></p> <p>Information relevant to investment at all cycles should be shared proactively in an inclusive, accessible and transparent manner concerning stakeholders' diversity, including local languages.</p> <p>Regular, independent, transparent impact assessment involving all stakeholders to be made publicly available and accessible.</p>	

Source: ASEAN Secretariat, 2018 and ASEAN Secretariat, 2020a

“Access to food requires the right regulatory and physical infrastructure, and these are not equally present in all ASEAN Member States. Increased investment is needed to address shortfalls in these areas.”

Access to food requires the right regulatory and physical infrastructure, and these are not equally present in all ASEAN Member States. Increased investment is needed to address shortfalls in these areas. Strategic Thrust 5 recommends expanding investment in agriculture by creating a roadmap for a demand-oriented agri-based and food regional value chains,<sup>4</sup> encouraging stakeholder collaboration and real-time information exchange among actors in the region's supply chain and the use of PPP agreements to complement the government's limited resources.

<sup>4</sup> “Demand-oriented value chain” is the management of a supply chain that responds to the demand signals from actors in the supply chain network, including consumers, small scale farmers and private sectors (KPMG, 2016).

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## AIFS-SPA FS' Contribution to Investment in Agri-food

Key achievements of AIFS-SPA FS in creating regional mechanisms and strengthening ASEAN organizational capacity came during AIFS-SPA FS 2009–2013 implementation. These achievements included strengthening the ASEAN Food Security Reserve Board, developing the ASEAN Food Security Information System, and the entry into force of an emergency food crisis response, the ASEAN Plus Three Emergency Rice Reserve.

The establishment of self-sustained regional food information exchange platforms such as the ASEAN Food Security Reserve Board and the ASEAN Food Security Information System can support investment that promotes transparency, accountability, and connectivity of agri-food supply chains. However, the data reliability and accuracy of these platforms should be improved (Desker et al., 2013; Setyoko et al., 2015).

Evidence of more recent improvements to investment through AIFS-SPA FS is limited. The number of initiatives the framework has generated to achieve its provisions is not available. However, some progress has been made through ASEAN Member State-led programs and policies targeting investment in food security.

## Investment in ASEAN's Agriculture and Food Sector

In general, investment for food security is made in the agriculture and food sectors. This can take the form of domestic or foreign investment, but this paper will focus on FDI. Positive spillovers from FDI have the potential to help ASEAN strengthen its economy and regional food security through job creation and technological innovation (Jiang & Chen, 2020), both of which are increasingly needed in the economic fallout of the COVID-19 pandemic.

According to OECD (2006), private investment increases an economy's productive capacity, helps create jobs, increases income and, in the case of international investment, diffuses technological and business expertise locally, makes available technology and knowledge,<sup>5</sup> as well as stimulates domestic investment through local supplier linkages (OECD, 2006; Wardhani & Haryanto, 2020).

Technology from FDI can make food distribution more efficient by enhancing food traceability, transparency, and control of information flow within the supply chain (Deloitte, 2020). Spillover effects such as these can increase overall food security through improved production quality and capacity, and improved logistics system for a more efficient distribution of quality food even among smallholder farmers (World Bank & UNCTAD, 2014). Improving discrepancies in rural and urban internet access through FDI is one path to realizing these benefits from technology spillovers.

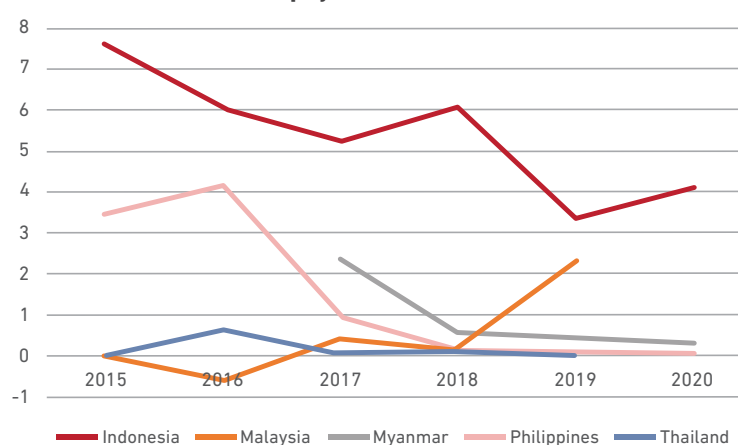
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<sup>5</sup> The use of mobile phones and the internet among farmers helps them communicate faster and more efficiently with traders, retailers, and fellow farmers through WhatsApp groups (Voutier & Woo, 2021).

“ Although there is FDI in agriculture in ASEAN, the amount is small. Figure 1 shows that until 2020 agriculture represented less than 10% of total FDI inflows in the region.

Although there is FDI in agriculture in ASEAN, the amount is small. Figure 1 shows that until 2020 agriculture represented less than 10% of total FDI inflows in the region. By comparison, the proportion of manufacturing and financial and insurance activities represented 35% and 32% of FDI, respectively (ASEAN Secretariat, 2020b).

**Figure 1.**  
**FDI Inflow in Agriculture as a Share of Total FDI Inflows in 5 ASEAN Member States**  
**(balance of payment; in %), 2015–2020**



Note: Data of FDI inflow in agriculture for Brunei, Cambodia, Lao PDR, Singapore, Vietnam are not accessible.  
 Minus share indicates that divestment and repayment of loans are greater than investment received.  
 Sources: Statistical Yearbooks of Indonesia, Malaysia, Myanmar, Philippines, & Thailand

Low FDI inflow could result in underfunding that threatens AIFS-SPA FS implementation, which includes activities that rely on investment through FDI. For example, AIFS-SPA FS promotes agricultural technology innovation and the establishment of a robust digital information system across the regional supply chain.<sup>6</sup> Private FDI is essential to provide funding and expertise to improve the system and help farmers in technology adoption. As public resources are limited, more efforts have to be made through collaborative PPP agreements that also include small-scale farmers, small-scale investors and indigeneous communities in the process to promote investment in the agriculture and food sectors to achieve the regional goal of food security integration in ASEAN.

To improve ASEAN food security and economic growth, FDI should aim to eradicate the root causes of hunger and poverty, which aligns with the approach adopted in AIFS-SPA FS. Therefore, investment policies need to be governed by a transparent and accountable legal framework (OECD, 2006) while also involving the private sector and stakeholders who are most vulnerable to hunger and poverty, such as the small-scale farmers (Cornell University, IFPRI, & IISD, 2020).

<sup>6</sup> These activities are promoted in the Strategic Plan of Action on Food Security under activity 3.1.2 on establishing a robust integrated food security information system that can collect and update food security data regularly including information of food supply that meets the national dietary guidelines; activity 4.1.1 on disseminating new agricultural technologies and practices in many stages of the value chain that can also be accessible by all producers; and the activities in strategic thrust 9 on developing and strengthening nutrition-enhancing food, agriculture and forestry policies/programs and building capacity for their implementation, monitoring and evaluation.

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The Center for International Private Enterprise (CIPE) also highlighted the criteria for investment preferred for enhancing food security that are in line with the ASEAN guideline. CIPE classifies investments under the term “constructive” and “corrosive” investments. Constructive investments are transparent and have market-oriented objectives both at the funding source and destination country. They generate capital that create positive spillovers to the institution in which it operates and thereby induce good governance practices. In the opposite end, corrosive investments are untransparent and have objectives that are based on vague political motives. The capital generated from such investments are often used to negatively influence the development of the destination country such as through corruption (Hontz, 2019). The ASEAN RAI also offers several screening criteria for FDI in food security—Guideline 8 and Guideline 9 (detailed in Table 1) encourage transparent and accountable investment.

Based on the CIPE categories of constructive and corrosive investment, the following sections analyze whether AIFS-SPA FS focuses sufficiently on investment policy gaps in ASEAN Member States that can affect the quantity and quality of FDI flow in agriculture and food.



## OPPORTUNITIES AND CHALLENGES TO INVESTMENT IN FOOD SECURITY IN ASEAN

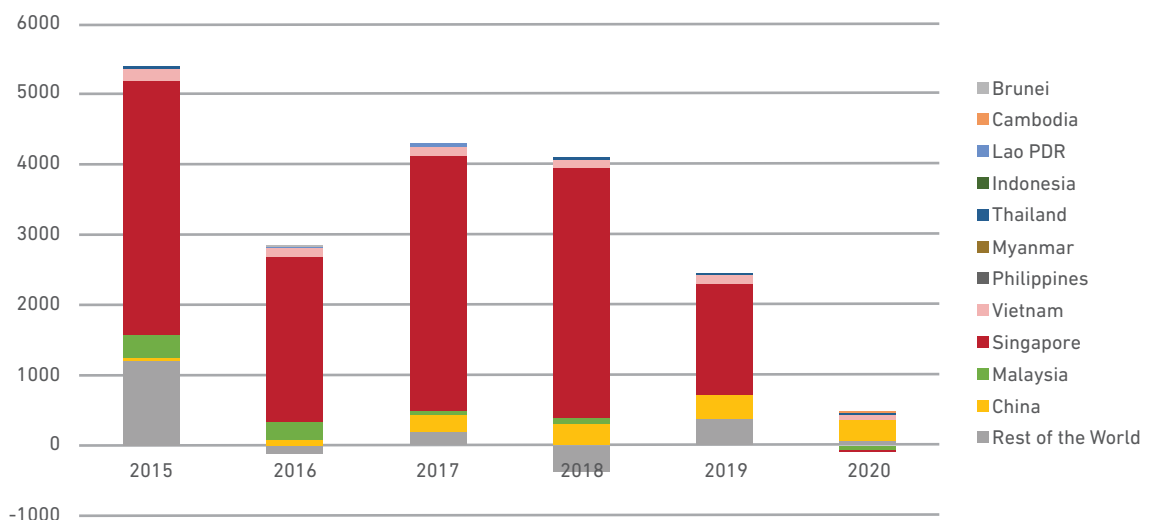
There are both challenges and opportunities for the prospects of FDI to assist with ASEAN regional integration. Some of the opportunities come from the relocation of manufacturing firms out of China and to other parts of Asia in response to trade disputes between the United States and China, as well as from the growing economy and income levels in China (Zhou & Tan, 2020). Recent challenges are largely the result of the economic effects from the COVID-19 pandemic.

The ability of the ASEAN Member States to benefit from opportunities and overcome challenges will depend on the capacity of their domestic institutions. Institutional capacity can be undermined by governance and policy gaps (UNESCAP, 2020; Kim, Kim & Park, 2020).

FDI in agriculture in ASEAN countries has been declining since 2015 (Figure 2). On average, annual FDI inflow to ASEAN agriculture in the years 2016 to 2019 was 26.89% lower than that of 2015. When pandemic-stricken 2020 is included, the average has declined by 41.50% compared to 2015 (ASEAN Statistics, 2021b).

“FDI in agriculture in ASEAN countries has been declining since 2015 (Figure 2). On average, annual FDI inflow to ASEAN agriculture in the years 2016 to 2019 was 26.89% lower than that of 2015.”

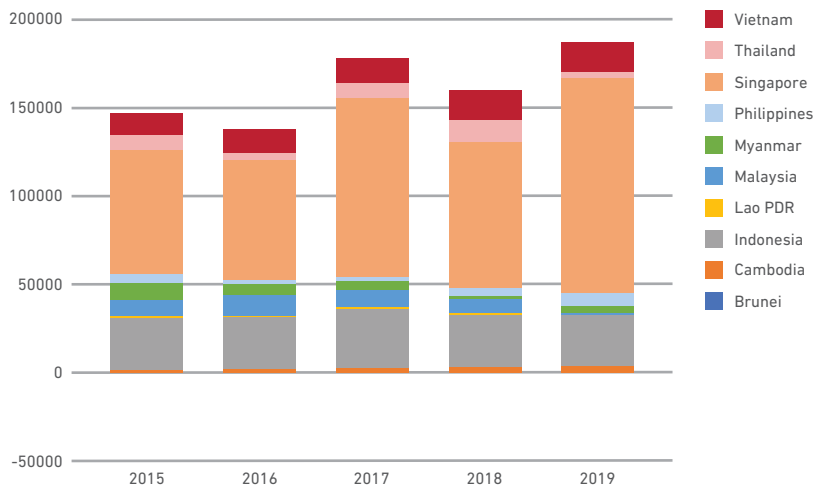
**Figure 2.**  
**FDI Inflows in Agriculture in ASEAN based on Source Country**  
**(in million USD), 2015–2020**



Source: ASEAN Statistics, 2021a

Disaggregated data on FDI in agriculture in each ASEAN Member State are not available at the time of writing this paper. However, in terms of total FDI inflow, Singapore receives the highest proportion of any ASEAN Member State (Figure 3).

**Figure 3.**  
**Total Net FDI Inflow in ASEAN Member States based on Host Country**  
**(balance of payment; in million USD), 2015–2019**



Note: exchange rate per 13 October 2021

Sources: Bank of Thailand, DICA Myanmar, Department of Statistics Malaysia, Philippines Statistics Authority, Statistics Indonesia, World Bank

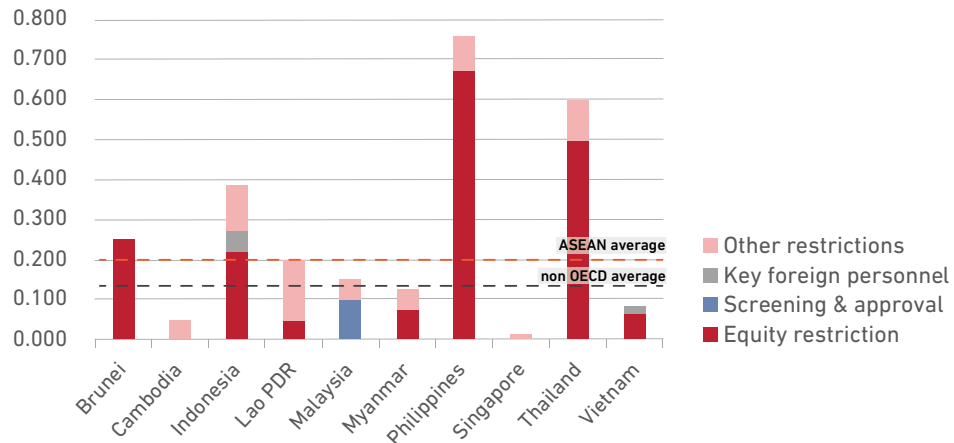
Disaggregated data on FDI in agriculture are only available for Indonesia, Malaysia, Myanmar, the Philippines, and Thailand. FDI in agriculture in these countries represents only 0.10–7.57% of total FDI inflow (refer back to Figure 1).

ASEAN Member States do not operate on a level playing field in their ability to attract investment due to policy and governance gaps. For instance, while Singapore is extremely open to FDI, Thailand and the Philippines have adopted policies that increase FDI restrictions, and Myanmar and Cambodia lack the regulatory resources for ensuring accountable private sector participation. Gaps in domestic governance and policy interfere with the ability of different states to take advantage of FDI opportunities for economic development and regional integration.

The OECD FDI regulatory restrictiveness index in agriculture<sup>7</sup> in different ASEAN Member States is depicted in Figure 4. Singapore, which receives an index score of 0.01, leads ASEAN Member States in providing an open regulatory environment. Meanwhile, the Philippines (0.76), Thailand (0.60) and Indonesia (0.38) employ a regulatory environment that is more restrictive than both the ASEAN average (0.20), and non-OECD average (0.13) (OECD, 2021).

<sup>7</sup>This index measures regulatory restrictions such as restriction on screening and approval mechanism, employment of foreigners, and foreign equity. A score of 0.00 is "completely closed" and a score of 1.00 is "completely open."

**Figure 4.**  
**FDI Regulatory Restrictiveness Index in Agriculture of ASEAN Member States, 2020**



Note: 0= completely open and 1= completely closed to FDI  
 Source: OECD, 2021

Restrictions on private sector involvement and investment hinder the potential for economy-wide productivity gains (OECD, 2019). Liberalization of investment regulation can encourage FDI, but does not address all of the factors that discourage FDI by rendering it risky or unprofitable (OECD, 2003). FDI restrictions in ASEAN Member States consist largely of equity restrictions, but other restrictions that affect FDI are those related to governing property, land ownership, and work permits (Zhan et al., 2015; OECD, 2018; Pasaribu et al., 2021). Although FDI regulation in Cambodia and Myanmar is relatively open, these countries suffer from problems, such as corruption and political instability, that discourage FDI.

Commitment to FDI openness should be signified by addressing regulatory and policy gaps as well as by making policy changes such as removing foreign ownership restrictions and liberalizing trade policy. It will also be necessary to address monopolies by State-Owned Enterprises (SOEs) that play a large role in the agriculture sectors of most ASEAN Member States. SOE dominance poses a challenge to attracting agricultural FDI, while governance gaps increase investment risks and costs.

Opening up the ASEAN agriculture to private sector involvement would encourage the constructive FDI necessary for global value chain integration, but only if the policy framework and guidelines appropriately manage the associated risks, explored further in the discussion of public-private partnerships.

The dominant role in many ASEAN Member States of SOE and similar agencies in international markets of staple commodities such as rice, is a major barrier for private investment in regional supply chains for key commodities and food (Patunru & Ilman, 2019; Octania, 2021). The role of BULOG in Indonesia, VINAFOOD I and II in Vietnam, National Food Authority (NFA) in the Philippines, and BERNAS in Malaysia in importing and distributing commodities, administering farmer subsidies, and setting import quotas all hinder private sector competition and FDI. Given the dominant role of these agencies in many ASEAN Member States, there is insufficient discussion of the problems they pose in AIFS-SPA

FS and the ASEAN Economic Community Blueprint 2025. Opening up the ASEAN agriculture to private sector involvement would encourage the constructive FDI necessary for global value chain integration, but only if the policy framework and guidelines appropriately manage the associated risks, explored further in the discussion of public-private partnerships.

AIFS-SPA FS includes the goal of integrating staple food commodities such as rice into the regional supply chain through trade openness. The achievement of this goal has been hindered by protectionist policies that also discourage investment. ASEAN Member States continue to implement non-trade measures for staple food commodities in pursuit of self-sufficiency and other domestic policy goals (Amanta, 2021; Pasaribu, 2021). Several studies have argued that regional integration in trade in agricultural commodities can stimulate agricultural investment in ASEAN Member States (Kawai & Naknoi, 2015) and increase their participation in the global value chain (Verico, 2017).

The exclusion of staple commodities from trade openness expands the role of SOEs and limits the benefits investors could otherwise expect, limits access to local and global supply chains, and limits market and business opportunities. Holding this course could further raise domestic prices of staple commodities (Amanta, 2021) and raise the cost of regional integration to encourage investment. It is therefore crucial that AIFS-SPA FS take these challenges seriously.

## Public-Private Partnerships

AIFS-SPA FS recommendations refer to the 2017 ASEAN Public-Private Partnership Regional Framework for Technology Development in the Food, Agriculture and Forestry Sector<sup>8</sup> for its recommendations on public-private partnerships (PPP). PPP is complex and needs to be governed well to be accountable and transparent. Poorly governed PPP not only increases the risk for investors, it also increases the risk of corrosive investment.

An example of a PPP is the Better Rice Initiative in ASEAN (BRIA)<sup>9</sup> under ASEAN Sustainable Agrifood Systems. This initiative aims to make the rice value chain more sustainable and to raise rural incomes to improve food and nutrition security in the Philippines, Thailand, Vietnam and Indonesia. BRIA shows how the private sector can play a role in improving technological capacity by expanding Information and Communications Technology (ICT) facilities and training. In the case of BRIA, these investments improved smallholder farming activities. However, the private sector's investment in this project is limited. Out of a EUR 31 million (USD 27.48 million) total investment for ASEAN-SAS, EUR 16 million (USD 14.18 million) came from the German federal government and the remaining EUR 15 million (USD 13.29 million) came from both the private and public partners.

In contrast, the negative outcomes of investment projects in the Sihanoukville Special Economic Zone (SSEZ) in Cambodia serve as a cautionary tale about FDI under weak law enforcement and policy gaps. The SSEZ includes one of the biggest FDI projects by China in Cambodia, targeting priority sectors such as infrastructure and agriculture-based industry. Although the project generated new employment and capital, policy gaps enabled corruption, particularly in the issuing of permits to the private sector (ADB, 2015). There was also limited knowledge and technological transfer to the local economy. Technology was purchased outside of Cambodia and businesses in SSEZ made no investments in research and development.

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<sup>8</sup> The framework covers policy and organizational framework for private participation, project selection, development and implementation, affordability and budget transparency, and transnational infrastructure connectivity.

<sup>9</sup> The program engaged 124,762 smallholder farmers (17% female), trained 16,993 agricultural workforces, generated more than USD 114 million worth of additional income to farmers and established 57 partnerships with foreign companies such as Olam, BASF, DSM and association such as CropLife International. The report can be accessed here: <https://org.doa.go.th/aseancrops/wp-content/uploads/2020/07/ASEAN-SAS-AMAF9Nov17.pdf>.

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Strong political connections between the Chinese elites that operate businesses in SSEZ and Cambodian political leaders have given Chinese investment political protection from the Cambodian government (CIPE, 2020), exacerbating the challenges to transparency and accountability and introducing a risk of social instability. The case of SSEZ illustrates the challenges that can arise when governance gaps are combined with insufficient political commitment to transparency and accountability and the importance of encouraging investment with constructive capital.

# ANALYSIS OF AIFS-SPA FS INVESTMENT PROVISIONS AND ASEAN INSTITUTIONAL CAPACITY IN INCENTIVIZING TRANSPARENT AND ACCOUNTABLE INVESTMENTS FOR FOOD SECURITY

AIFS-SPA FS attempts to encourage the expansion of transparent and accountable investment in the agriculture and food sectors in activities under Strategic Thrust 5: Encouraging Greater Investment in Food and Agriculture, which supports the implementation of ASEAN RAI and in the governance mechanism of the ASEAN Integrated Food Security framework. ASEAN Member States have also shown progress in establishing a domestic regulatory environment for investment based on guidelines and activities in AIFS-SPA FS, such as Thailand's government incentives and grants for businesses, including agritech<sup>10</sup> (Pungcharoenpong, n.d.).

Despite these efforts, SOEs remain dominant in the food and agriculture sectors of some ASEAN Member States. In addition, governance and policy gaps remain a challenge to implementation in some member states, especially in transitioning economies such as Cambodia. This preserves room for corrosive investment in the agriculture and food sector. The following gaps in the framework help perpetuate the risk for corrosive investment in food security.

**SOEs remain dominant in the food and agriculture sectors of some ASEAN Member States. In addition, governance and policy gaps remain a challenge to implementation in some member states, especially in transitioning economies such as Cambodia.**

In expanding investment to develop food and agri-based supply chains, AIFS-SPA FS encourages involvement by the private sector through PPP as mentioned in activities 5.1.1: Prepare roadmaps for demand-oriented agri-based and food regional value chains, and 5.1.2: Support agri-based and food regional supply chain development through closer PPP. However, these activities did not directly mention supporting the ASEAN framework on PPP for Technology Development in the Food, Agriculture and Forestry Sector, which promotes good governance in implementation. Information on FDI and PPP that is accessible to the public, including the small-scale farmers on which ASEAN's agriculture supply is dependent (BCSD, 2016), is also not mentioned.

While activities 5.1.1 and 5.1.2 demonstrate an awareness of the importance of encouraging constructive investment (OECD, 2015), they need to be accompanied by good domestic governance to ensure that PPP endeavors are transparent and accountable. This is especially true in the guidance that should be issued to transitioning economies in the region, which are prone to exploitation by private sector actors who could invest with corrosive capital.

<sup>10</sup> Agritech or agricultural technology aims to improve production yield, food quality and promote sustainability in the agri-food value chain through modern technologies (Enterprise Singapore, n.d).

Strategic Thrust 5 also fails to emphasize the need for a forum to exchange knowledge and practices in addressing policy and governance gaps in PPP implementation. Member states can participate in such a forum to learn from each other's success stories and lessons on private sector's participation that are relevant to their national and local contexts.

The framework and relevant associated documents also neglect to include recommendations or rulings to address the problem of SOE dominance. As discussed, SOE dominance in the food system must be addressed to encourage private sector investment.

AIFS-SPA FS includes the development of a roadmap to establish a demand-oriented agri-based and food value regional chain in activity 5.1.1. This is meant to encourage sustained investment in the food and agri-based industries. The roadmap aims to support small and medium enterprises and to facilitate the coordination of investment between stakeholders, such as through PPP. However, neither the activity nor the strategic thrust explicitly mention that the partnership to coordinate and expand investment should follow the ASEAN PPP Regional Framework for Technology Development in the Food, Agriculture and Forestry Sector, even though it is listed as a referral document for the framework's implementation. The roadmap has been postponed to 2025, and so ASEAN should consider helping its member states address gaps in domestic governance and develop policy to encourage constructive capital investment.

ASEAN has not agreed on shared investment screening criteria nor demonstrated equal openness to FDI in ASEAN-RAI. The more standards that are harmonized or mutually recognized across countries, with recognition backed by agreements that clearly identify the roles of stakeholders involved, the easier it will be for businesses to invest and trade internationally with transparency, accountability and a healthy degree of competition (OECD, 2006). A common standard to screen and evaluate FDI in the region is recommended to help ASEAN Member States improve the quality and quantity of FDI inflows to support existing activities and programs in agriculture. For example, a common standard is necessary to improve the reliability and accuracy of data in the ASEAN Food Security Information System. The absence of such a standard in the framework preserves the risk of corrosive capital, as was seen in SSEZ projects in Cambodia.

**The declining agricultural FDI inflow that has accompanied an increasingly urgent need to improve the agricultural sector requires ASEAN Member States to commit to increasing FDI for both recovering from the economic crisis accompanying the pandemic and encouraging technological spillover and knowledge transfer.**

As variance in degrees of liberalization of investment policies is not explicitly mentioned in the framework, the failure to address it, could distort the spread of FDI only to a few countries with more conducive investment environments and it could allow corrosive investment for food security to operate. The declining agricultural FDI inflow that has accompanied an increasingly urgent need to improve the agricultural sector requires ASEAN Member States to commit to increasing FDI for both recovering from the economic crisis accompanying the pandemic and encouraging technological spillover and knowledge transfer. Without shared criteria, and harmonization, stronger commitment to FDI openness among some member states may encourage competition between states for FDI rather than an integrated approach to achieve regional food security goals through the elimination of root causes of hunger and poverty.

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## CONCLUSION AND RECOMMENDATIONS

Throughout its implementation, AIFS-SPA FS has guided ASEAN Member States toward progress in ensuring food security in the region making it more robust to regional or global crises. However, member states continue to face challenges in both the quantity and quality of FDI as a result of trade and investment restrictions, as well as from policy gaps that increase the risk of corrosive capital investments.

Gaps in AIFS-SPA FS increase the possibility of missing opportunities for constructive capital investment and increase the risk for corrosive capital investment, especially when competition for FDI between member states is high.

AIFS-SPA FS should be equipped with a roadmap to encourage more private sector participation, include harmonization in standards for FDI screening, and follow up with guidance from the ASEAN RAI to help ASEAN Member States develop accountable domestic policy and facilitate constructive capital investments in food security. The need for a more conducive environment for investment and private sector participation is especially important to the extent that it creates opportunities to increase digital inclusion, technology, and innovation in the agricultural sector. To address these shortfalls, this paper provides the following recommendations:

- 1. Include a provision on harmonization in commitment to FDI openness and minimum standards for FDI screening in Activity 5.1.1<sup>11</sup> in AIFS-SPA FS to pave the way for greater private sector participation and address the dominance of SOEs.** Common policy standards to foster transparency and accountability would incentivize businesses to spread investment across the region instead of concentrating in a few countries with better investment climates. This should be accompanied by addressing the dominance of SOEs in the regional food system by providing clear roles for the private sector, SOEs, and the public sector, as well as by encouraging more significant private participation, especially in improving agriculture technology.

Harmonization of FDI screening standards may face challenges given the voluntary nature of AIFS-SPA FS and differences in the ASEAN Member States capacity to address the governance gaps. Mutual understanding of each state's domestic challenges should be fostered through closer coordination and cooperation among not only ASEAN leaders but also among the private sector and other relevant stakeholders. This would encourage appropriate domestic policy changes to bring ASEAN commitments in line with domestic interests.

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<sup>11</sup> Activity 5.1.1: Prepare roadmaps for demand-oriented agri-based and food regional value chains.



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2. **Make the evaluation of AIFS-SPA FS provisions transparent and accessible to the public to improve awareness of the roadmap and ensure trackable progress.** The framework is extended every five years, providing an excellent opportunity for periodic evaluation of whether it is moving the Southeast Asian region toward long term food security. Evaluation of both implementation and effectiveness of AIFS-SPA FS provisions should be accountable, transparent, and accessible to the public as the public is also the stakeholders in food security. Publicly accessible evaluation should improve awareness of the information and standards set in the roadmap and of its implementation progress and success. This should generate public discourse to provide insight on improving the framework and build a sense of ownership, compliance, and urgency to ensure the effective implementation of AIFS-SPA FS.
  
  3. **Emphasize the use of a forum of exchange of knowledge and practices in Strategic Thrust 5 to address governance and capacity gaps to create a conducive environment for private sector participation.** To address the dominance of the public sector and encourage PPP in agricultural investment in the region, ASEAN should strengthen an exchange of knowledge and practices between the ASEAN Member States and private stakeholders. This exchange may take place at a forum, as recommended under the 2017 ASEAN Public-Private Partnership Regional Framework for Technology Development in the Food, Agriculture and Forestry Sector. The AIFS-SPA FS can be improved by explicitly mentioning the exchange forum as part of the investment-implementing mechanism under Strategic Thrust 5 to encourage greater investment in food and agriculture.

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