Implications of the ASEAN Economic Community (AEC) for trans-boundary agricultural commodities, forests and smallholder farmers

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Key points

• ASEAN Economic Community (AEC) integration may increase pressures on the region’s forests and smallholder farmers as agricultural production becomes more regionalized.

• The AEC proposes countering possible negative impacts by focusing on equity and sustainability in the food, agricultural and forestry sectors, while simultaneously encouraging these sectors to intensify and become more competitive – parallel goals that may prove to be contradictory.

• In marginal areas such as northern Laos, the growth of regional markets has accelerated the expansion of land-intensive production, providing new economic opportunities for smallholder farmers, altering landscapes and tightening competitive pressures.

• Stronger coordination between agricultural, livestock and forestry sectors is needed to address the trade-offs that underlie coexisting objectives, while social forestry initiatives may better respond to local needs and pressures on forests, but remain largely omitted from AEC policy.

• Targeted research is needed across diverse ASEAN contexts to support informed policy making for agricultural development, sustainable forestry and smallholder livelihoods.

Introduction

The ASEAN (Association of Southeast Asian Nations) Economic Community (AEC) was officially launched in early 2016, advocating a globally competitive and integrated single market and production base that is founded on the free movement of goods, services, capital, investment and skilled labor (ASEAN 2008). While the enactment of the AEC is a staggered process and will not lead to overnight changes, its long-term implications are important in any consideration of development trajectories among the member countries: Brunei Darussalam, Cambodia, Indonesia, the Lao People’s Democratic Republic (Laos), Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Many of the member countries remain relatively rich in forests and other environmental resources, which face increased pressures amid strengthening integration, widening access and tightening competition. These same forces may also weigh heaviest on smallholder farmers as agricultural production becomes more regionalized, raising questions over environmental sustainability and equitable outcomes of economic integration among marginal populations.

The stage has been set for AEC integration through long-term infrastructure and institution building, driving an increase in ASEAN trade of USD 700 billion between 2007 and 2015, almost one quarter of which was intraregional.
In the year 2015/16, ASEAN attracted USD 120 billion in foreign direct investment (FDI), with intra-ASEAN investment accounting for the largest share (ASEAN 2016a). However, most of this investment went to Singapore and the biggest archipelagic country, Indonesia. These figures reveal large disparities in FDI flows based on the composition of the receiving country, with the more advanced economies such as Brunei Darussalam, Indonesia, Malaysia and Thailand favoring manufacturing, but being more restrictive towards investments in agriculture and natural resource sectors. The less advanced member countries of Cambodia, Laos, Myanmar and Vietnam (the CLMV bloc) have the highest rates of investment liberalization in natural resources and agriculture (Intal 2015) and are actively pursuing FDI in these sectors. In the CLMV countries, transnational investment in industrial agriculture is considered a shortcut to agricultural modernization, and to reassign marginal land for more productive uses (Scurrah and Hirsch 2015).

The AEC’s focus on food, agriculture and forestry aims to achieve regional food security (particularly in the wake of the 2008 food crisis) and to increase ASEAN’s competitiveness in global markets. The ASEAN Integrated Food Security Framework, one of many policy documents accompanying the enactment of the AEC, seeks to increase agricultural production to meet global demand, and requires member countries to expand agro-based industries and create effective markets to support trans-boundary trade. The ‘Vision and Strategic Plan for ASEAN Cooperation in Food, Agriculture and Forestry (2016–2025)’ meanwhile aims to achieve:

- A competitive, inclusive, resilient and sustainable Food, Agriculture, and Forestry (FAF) sector integrated with the global economy, based on a single market and production base contributing to food and nutrition security and prosperity in the ASEAN Community.

ASEAN 2015

ASEAN’s vision is thus to develop the competitiveness of food, agriculture and forestry while also supporting the 40% of the ASEAN population who rely on these sectors for their livelihoods. The document meanwhile acknowledges that: “globalization and regional integration not only open up access to larger regional and global markets, but also expose domestic producers to intensified competition from more technologically sophisticated, better endowed foreign competitors” (ASEAN 2015, 4). Such integration could subject the smaller ASEAN economies, such as those of the CLMV grouping, to heightened competition over agricultural and forest land and resources, to satisfy demand originating in the more advanced economies (Rigg 2005; Ingalls et al. 2016; Razal et al. 2015). This may also hold important implications for domestic food security as trans-boundary production absorbs land that might otherwise provide for local needs.

Here we examine some of the ways in which accelerating regional integration might affect forest landscapes and the smallholder farmers who depend on them. First, we consider the likely broad impacts of AEC integration via concepts of forest and agrarian transition, before reflecting on how integration is directly playing out in the case of northern Laos, through trans-boundary contract farming and rising cross-border demand for agricultural commodities. Finally, we explore related AEC sectoral strategies and the implications for forest landscapes and provide recommendations for policy and further research.

**Regional integration as a transitional force**

The economic, social and cultural diversity of ASEAN limits generalization among (and within) the member countries. However, if we maintain a sense of these limitations, two concepts of transition offer useful approaches to understanding landscape and developmental change. First, forest transition is the turnaround in a given geographical context from a period of net loss to a period of net gain in forest area, as economies diversify and become less reliant on land- and resource-intensive sectors, making it possible to reduce and reverse deforestation. While this process is highly differentiated and by no means automatic, studies have observed different countries to undergo forest transitions based on factors relating to economic development, forest resource scarcity, changing policy environments, globalization impacts and changing smallholder land-use patterns (Meyfroid and Lambin 2011; Youn et al. 2016). With the importance of context in mind, the optimal forest transition pathway under AEC integration would emphasize diversifying economies that remain heavily reliant on exploiting forest land and resources, while strengthening the policy and institutional architectures in place to manage them sustainably.

Second, the concept of agrarian transition is particularly relevant given the strong persistence of smallholder agriculture across ASEAN (Rigg et al. 2016), and of subsistence-oriented production particularly among the less advanced countries. De Koninck (2004) defines agrarian transition as “the transformation of societies from primarily non-urban populations dependent upon agricultural production and organized through rural social structures, to predominantly urbanized, industrialized and market-based societies” (De Koninck 2004, 286). De Koninck’s framing includes the intensification of state and supra-national governance of agricultural production and market systems, and increasing domestic and international population mobility (2004), all of which align in different ways with central aspects of the AEC. The focus of the AEC in terms of mobility is on facilitating the movement of skilled professionals, and “temporary cross-border movement of

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natural persons and business visitors” engaged in investments and trade in goods and services (ASEAN 2016b, 11). However, the majority of current intra-regional mobility is migrant labor, often responding to new opportunities (or pressures) created by regional integration. Migration for wage work is a commonly observed strategy for subsidizing and spreading the risks of sub-livelihood smallholder farming (Winkels 2012; Rigg et al. 2016), while the diversified incomes made possible through periods of migration of some household members may also reduce reliance on land and forests (Manivong et al. 2014).

In terms of expanding supra-national governance of agricultural production, a notable objective in the AEC’s Blueprint 2025 is to support the engagement of member countries in global value chains (GVCs). This is proposed through the removal of formal market access restrictions, coupled with improved trade facilitation and regulation (ASEAN 2016b). Significant intra-regional FDI in the CLMV countries is a cause of growing land insecurity due to its often land-intensive nature, whether through appropriation in the form of concessions or engagement of farmers in contract and land rental arrangements (Scurrah and Hirsch 2015). The AEC Blueprint 2025 also refers to regional value chains as stepping stones for the less advanced ASEAN economies to integrate with GVCs (ASEAN 2016b). Perhaps representative of this stepping stone phase is the present proliferation of trans-boundary contract farming for agricultural commodities, as depicted below in the context of Laos.

**Box 1. Concepts of transition**

A. Forest transition

![Forest transition diagram](image)

A. shows forest transition trajectories representing the turnaround from net loss to net gain in a forest area in a given geographical context. B. shows the factors and processes of agrarian transition, from primarily non-urban and agriculture dependent societies to those that are predominantly urbanized, industrialized and market-based. AEC integration will influence the trajectories of these component processes (inside circle), which could in turn affect forest transition pathways in the ASEAN member countries. **Stylized examples:** FT curve 1 denotes the acceleration of deforestation and forest degradation in countries at earlier stages of agrarian transition, as AEC integration strengthens and production becomes more regionalized, where economies and state policies are geared towards attracting land- and resource-intensive investments. FT curve 2 denotes a slowdown in deforestation and a move towards afforestation/agroforestry in countries at advanced stages of agrarian transition, which results from urbanization and economic diversification, and outsourcing of land- and resource-intensive production elsewhere.
The AEC and contract farming in Laos: Strengthening integration, tightening pressures?

One of the ways in which forest land and smallholder livelihoods in Laos could be affected by the integrated agricultural production base envisioned by the AEC is through the continued expansion of trans-boundary contract farming of commodity crops. Contract farming is considered to be potentially beneficial for smallholder incomes and productivity in developing countries, by enabling coordination between farmers and other actors in relation to production, processing and marketing (Nguyen et al. 2015), to achieve economies of scale and overcome credit and other constraints. While not a new phenomenon for Laos, a variety of contract farming arrangements for annual cash crops rapidly expanded across the country during the 2000s, driven by rising demand and investments from neighboring markets (World Bank 2008). This demand is in turn rooted in sustained growth across the region over recent decades that has seen many ASEAN countries achieve middle-income status, which often masks inequalities within and between them (Rigg 2016). The growth in prosperity is accompanied by changing food consumption behaviors, particularly rising demand for animal protein that requires larger volumes of livestock feeds (Bocquillet 2014). Where gains in living standards are concurrent with urbanization, this drives the systematic outsourcing of food production from land-constrained to more land-endowed regions (Seto et al. 2012; Weinzettel et al. 2013). Acting in concert, these parallel processes can be viewed as a trans-boundary agrarian transition, in which stepping stone value chains projected by the AEC drive conversion of agricultural and forest land at the margins to meet new crop demands. Prominent contract, sharecropping and land rental schemes in different provinces of Laos motivated by trans-boundary demand include maize, banana, sugarcane, cassava and rubber, which often primarily supply specific neighboring markets in Vietnam, China and Thailand (World Bank 2008; Baird and Vue 2015; Scurrah and Hirsch 2015; Friis and Neilson 2016; Vongvisouk 2016).

Smallholders are usually in a weak position in contracting arrangements as they are often dependent on contract providers for access to inputs, credit, collection and transport of outputs to the wider supply chain, and for a fair price (Vagneron and Kousonsavath 2015). These issues, coupled with the impacts of trans-boundary land investments, were highlighted at a farmer conference on commercial agriculture in Luangnamtha in 2013, at which participants stated several priorities for stronger institutional support. In addition to credit, local and international market information, and opportunities to learn new production techniques, the farmers’ concerns included a reduction in and/or a ban on foreign investments that negatively affected local producers; domestic tax exemptions for production and trade in agricultural products; and addressing and reducing environmental and health impacts from chemical input use (SWGAB 2013). Improving the standing of smallholders in the face of strengthening integration would thus be critical to the inclusiveness and sustainability aspects of the Vision and Strategic Plan for ASEAN Cooperation in Food, Agriculture and Forestry (2016–2025) (ASEAN 2015). However, actions to prevent foreign investments would also contradict the basic principles of the AEC. In December 2015, on the cusp of the AEC’s enactment, the then Deputy Prime Minister of Laos, Somsavath Lengsavad addressed a research forum on its implications, highlighting the vulnerability of family-based producers to the gathering forces of the regional market. Mr Somsavath stressed the poor readiness of small-scale producers across the country for the AEC, suggesting the need for a strong economic “immune system” that could tolerate externally driven changes. The Deputy PM also candidly observed the low likelihood of complete removal of export barriers, citing protectionism in neighboring agricultural processing industries that could further disadvantage contract farmers, if they were not afforded some form of protection through the AEC.

Contract farming and concession policies presently position Laos as a supplier of raw agricultural commodities for its more advanced ASEAN neighbors – absorbing their outsourced requirements for land-intensive production (Meyfroidt et al. 2010). This role of supplying bulk inputs for distant downstream industries has dramatically altered land-use and livelihood practices, and accelerated the expansion of commodity crops to marginal areas. While contract farming and supply chain linkages outwardly offer new economic opportunities and respond to domestic policy aims to promote market-oriented agriculture and reduce poverty (MAF 2010), they also transform landscape functions and increase pressures on forests. Recent observations point to a strong relationship between trans-boundary contract production arrangements and conversion of swidden and fallow land, as well as primary and secondary forests to permanent crops, presenting serious challenges to forest and land sustainability (Vongvisouk et al. 2016). This demonstrates how strengthening commodity markets within the AEC can displace the production of land-intensive commodities from countries that are pushing for reforestation domestically (i.e. countries at later stages of forest transition) to those countries whose forest-agriculture frontiers are still advancing (Ingalls et al. 2016) such as Laos.

3 Author’s fieldnotes, 2017.
5 National University of Laos Science-Policy Forum, 16–17 December 2015, Vientiane.
6 Author’s notes from attendance at forum.
7 Author’s fieldnotes, 2017.
Implications for forest landscapes and AEC policy limitations

Regionalized production is likely to gain traction in the context of the AEC. If countries such as Laos continue to provide a mainly supply role in regional commodity markets, this will draw heavily on their present main comparative advantage – the ability to absorb land intensive production (Bourdet 2000). Unless adequate institutional and regulatory frameworks are supported and enforced, this may risk further large-scale conversion of forests and loss of important ecosystem services. If other, non-resource dependent sectors are established through enhanced AEC integration that can absorb more labor, this may ease pressures on land and forests, and induce forest/agrarian transitions that gradually reduce reliance on natural capital. However, considering such processes in an abstract way masks not only the diversity of local conditions but the potential for social upheavals and widening economic disparities that may result.

The AEC has worked to promote collective aims towards sustainable practices that better protect forests. However, limited coordination between sectors with competing interests affecting forest landscapes, and the lack of acknowledgment of diverse models of social forestry and agroforestry systems with the same aims are often constraints. Under the Vision and Strategic Plan for ASEAN Cooperation in Food, Agriculture and Forestry (2016–2025), sector specific strategic plans of action (SPAs) respond to constituent goals in various ways. These include the SPA for cooperation on livestock (2016–2020), which emphasizes: “sustainable productivity improvement, natural resources management and livestock impact on the environment and climate change” (ASEAN 2016c, 5). However, this emphasis is in the context of increasing the volume and competitiveness of the sector, implicitly requiring economies of scale and greater areas of land. Absent in the subsection on conserving resources is any mention of sectoral coordination to limit and optimize conversion to grazing lands for livestock purposes.

The SPA for cooperation on crop production (2016–2020) specifically targets “yield and productivity enhancing technologies and best practices that involve land use intensification in a sustainable manner, bearing in mind that expansion of cultivable land rapidly reaches its limits even in the land-abundant [ASEAN Member States]” (ASEAN 2016d, 19). The document further refers to optimization of resource use to sustainably improve productivity and avoid depletion of land. The SPA also aims to assist smallholders to become more competitive through access to technology, inputs, extension services and higher value markets, again “facilitating integration into modern value chains” (ASEAN 2016d, 20). Taken together, these aims are about getting more from the land in a sustainable manner, but say little about how such sustainability would be achieved – will enhancement of productivity, market connections and income opportunities in already land-intensive sectors not simply increase the demand for land to capitalize on higher profits? Better understanding is needed of the “limits to expansion of cultivable land” acknowledged in the SPA and how sustainability can be incentivized within the context of the concurrent drive for productivity, competitiveness and stronger regional integration.

Under the heading of sustainable forest management, the SPA for cooperation on forestry (2016–2025) includes a measure to “promote inter-sectoral cooperation between the forestry sector and other sectors, including agriculture, environment, customs and trade” (ASEAN 2016e, 15). The forestry SPA also features measures to enhance the climate change mitigation potential of ASEAN’s forests, and strengthen legal protections and governance, including “enforcement cooperation at the ASEAN level that deals with transnational illegal forestry activities and to facilitate cross-border enforcement” (ASEAN 2016e, 17). These requirements are situated alongside more familiar features of trade liberalization, and the forestry and crop SPAs include the aim of removing not only tariffs, but nontariff measures where these “have no economic or scientific rationale” (ASEAN 2016e, 20). One aspect of the Vision and Strategic Plan for ASEAN Cooperation in Food, Agriculture and Forestry (2016–2025) which could meanwhile have a more empowering role in fostering sustainability is action to “promote forest management involving the community living within and surrounding the forest for the sustainability of the forest and prosperity of the affected communities” (ASEAN 2015, 17). However, social or community forestry approaches remain virtually invisible in AEC documentation, despite the growing presence of officially recognized community forests and national programs across many ASEAN countries, totaling almost 9 million ha in 2013 (RECOFTC 2014). If ‘involving’ communities can be translated into policies and practices that support the devolution of rights and local needs, this may help to position social forestry as a more equitable model of forest governance for sustainability.

Present institutional architectures nevertheless represent progress in regional efforts to manage, protect and enhance ASEAN’s forests, together with initial efforts to incorporate cross-sectoral interactions. This has been assisted by regional dialogs on the AEC, enabling debate and allowing cross-pollination of approaches between...
major and minor players in the member countries. Regional viewpoints on enforcement via forestry sector cooperation envisioned by the AEC may also help to strengthen the management of economic activities affecting forests domestically. The implications of the AEC for ASEAN’s forests hinge on how institutional measures for integration, access and competition are balanced with measures aimed at sustainable management and protection, and how these are implemented within the diverse ASEAN political-economic contexts (Hirsch and Scurrah 2015; Cole et al. 2017).

Improving equity and sustainability outcomes of AEC integration

AEC policy prioritizes equity and sustainability as core principles. In support of these principles, regulatory measures will be needed to anticipate and respond to the impacts of changing demand structures in the context of regional integration.

- The forestry, agriculture and livestock sectors need strong coordination at the regional and national levels in considering and evaluating the trade-offs that underlie many of their coexisting objectives for optimizing production on the same land base.
- Such trade-offs should be understood in local contexts to account for the diversity between and within the ASEAN member countries, and to engage and respond to the locally bound needs of people who rely on land and forests for their livelihoods.
- This could be achieved by giving national programs for social and community forestry a stronger role; in this way, programs can be designed that are more responsive to local contexts and the different pressures on forests.
- More direct regulatory and safeguard measures are possible within specific sectors; for example, contract or investment arrangements could be designed to improve the balance of ownership, voice, risk and reward between investors and landholders or producers (Vermeulen and Cotula 2010).

Recommendations for evidence to support informed policy making

While the long-term effects of the AEC will be gradual, they will certainly be far-reaching. Evidence on the different ways that economic integration can drive social and landscape change, and how these changes will play out within the different contexts of ASEAN member countries will be critical for policy makers to meet multiple concurrent goals in terms of agricultural development, forest sustainability and smallholder livelihoods. We identify several key areas for future research to support the achievement of the AEC’s equity and sustainability aims as follows:

- Case studies into how enhanced regional integration and changing demand structures through processes such as increased trans-boundary commodity crop production and new production models, labor migration and remittances, have affected land, smallholder livelihoods and forests in both CLMV and economically advanced countries of ASEAN.
- Understanding how smallholders cope with and manage the different risks, and how they capitalize on the opportunities, resulting from AEC integration, to provide policy inputs for increasing inclusiveness and agency at the local level.
- Assessing how the AEC interacts with forest sustainability policies and mechanisms (e.g., PES, REDD+, FLEGT, forest certification standards) and cross-sectoral environmental policies (e.g. climate change and NDCs) at the national and regional levels in different country contexts, to understand and manage policy synergies and trade-offs.\(^9\)
- Examining AEC integration at multiple scales (subnational, national and regional) to situate location- and sector-specific issues within aggregate processes of change, aiming to identify measures that enable sustainability and equity goals to be met within different contexts.
- Review the forest and agriculture policy architectures of existing models of economic integration (such as the North American Free Trade Agreement and the Common Agricultural Policy of the European Union), to derive lessons and assess the differentiated socioeconomic and ecological impacts in participating countries.

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\(^9\) Payment for Ecosystem Services; Reducing Emissions from Deforestation and forest degradation, and enhancing forest carbon stocks; Forest Law Enforcement, Governance and Trade; Nationally Determined Contributions.
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The ASEAN Working Group on Social Forestry (AWG-SF) is a government-initiated network that aims to strengthen social forestry in Southeast Asia through the sharing of information and knowledge. AWG-SF, known previously as the ASEAN Social Forestry Network (ASFN), was established by the Association of Southeast Asian Nations (ASEAN) Senior Officials on Forestry (ASOF) in August 2005, linking government forestry policy makers directly with civil society organizations, research organizations, academia, the private sector, and all who share a vision of promoting social forestry policy and practices in ASEAN.

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