



Trade facilitation and
microfinance for poverty
reduction in the Greater
Mekong Subregion:
A case study of Thailand



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Abstract: This paper investigates whether trade facilitation measures benefit the poor and explores the role of microfinance in supporting the utilization of the trade facilitation initiatives. The focus of the study is on the Economic Corridors and Cross Border Transportation Agreement (CBTA), an Asian Development Bank programme to facilitate trade in the Greater Mekong Subregion. The paper shows that trade facilitation measures have brought about major improvements in transportation between Thailand and its neighbouring countries, such as the Lao People's Democratic Republic, Viet Nam and southern China. This has helped considerably in promoting tourism, export activities, labour movement and investment activities. However, the poor and microenterprises still face many obstacles in taking advantage of such opportunities due to their inability to access financing as well as a lack of relevant skills and knowledge.

JEL Classification: F63, I32, I38

Key words: Trade facilitation, Microfinance, Poverty reduction, Greater Mekong Subregion, Thailand

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Introduction

This paper investigates whether trade facilitation measures benefit the poor and microenterprises in border provinces. It also explores the role of microfinance in supporting the utilization of the trade facilitation initiatives. The role of microfinance in this context is to complement trade facilitation measures in order to allow the poor to benefit from new market access or business opportunities resulting from trade facilitation measures.

The focus of the study is the Economic Corridors and Cross Border Transportation Agreement (CBTA), two important initiatives for transport and trade facilitation under the Greater Mekong Subregion (GMS) programme of the Asian Development Bank (ADB). Thailand has implemented several infrastructure and trade facilitation projects that complement these two GMS initiatives and which are also studied in this paper. These include:

- (a) The improvement of basic infrastructure around the border locations;
- (b) Establishment of distribution centres at border locations;
- (c) Realignment and expansion of roads and highways connected to economic corridors;
- (d) Construction of customs and immigration control points;
- (e) Implementation of an e-customs system;
- (f) Establishment of markets at the border locations;
- (g) Human resource development.

In particular, the trade facilitation measures analysed here are the second and third Thai-Lao Friendship Bridges, the East-West Economic Corridor and related trade facilitation projects. The areas in consideration are within north-eastern Thailand's Mukdahan and Nakhon Phanom provinces.

1. Scope of study and methodology

With support from ADB and other donors, the GMS programme assists the implementation of high-priority sub-regional projects on transport, energy, telecommunications, the environment, human resource development, tourism, trade, private sector investment and agriculture. Two important initiatives under the GMS programme are the Economic Corridors and the Cross Border Transport Agreement (CBTA). The Economic Corridors are aimed at improving and establishing road links and international bridges between the GMS countries in order to promote trade, investment and production opportunities. The three Economic Corridors in the programme are:

- (a) The North-South Economic Corridor (NSEC):
 - (i) Route R3A: Chiang Rai-Kunming via the Lao People's Democratic Republic;
 - (ii) Route R3B: Chiang Rai-Kunming via Myanmar;
 - (iii) The Kunming-Hanoi-Haiphong Multimodal Transport Corridor project.
- (b) The East-West Economic Corridor (EWEC):
 - (i) Mawlamyine-Mae Sot (west);
 - (ii) Mukdahan-Savannakhet-Dong Ha-Da Nang (east).
- (c) Southern Economic Corridor (SEC): Bangkok-Phnom Penh-Ho Chi Minh City-Vung Tau road improvement project.

In order to support the establishment of Economic Corridors, the Government of Thailand has formulated the following plans:

- (a) Realignment and expansion of roads and highways connected to Economic Corridors in order to support greater use in the future;
- (b) The establishment of central markets near the Economic Corridors and improvement of roads from production sources to the markets;
- (c) The construction of new seaports and distribution centres such as the distribution centre in Mukdahan;
- (d) The improvement of basic infrastructure around the border locations, including water supply, flood prevention and waste disposal systems.

On the other hand, the CBTA objective is to reduce obstacles to cross-border transportation through improvements of transportation facilitation, including: (a) single-window/single-stop customs inspections; (b) a one-stop service; (c) cross-border movement of persons; (d) transit traffic regimes; (e) road vehicle requirements for cross-border traffic eligibility; (f) exchanges of commercial traffic rights; and (g) infrastructure creation and upgrades,

including road and bridge design standards, road signs and road signals.¹ Currently, Thailand still needs to ratify some of the protocols and annexes.

The scope of this study covers Mukdahan province (local communities neighbouring Route 9 and the second Thai-Lao Friendship Bridge) and Nakhon Phanom province (local communities neighbouring Route 12 and the third Thai-Lao Friendship Bridge). These two provinces were chosen as they are parts of the East-West Economic Corridor. Also, both provinces are located in the north-eastern region of Thailand, which has the lowest per capita income. The study covered the following aspects:

- (a) An investigation of the economic background, trade facilitation projects and microfinance systems in the two provinces;
- (b) Exploration of the impact of trade facilitation projects on the poor and microenterprises;
- (c) An analysis of the potential benefits of trade facilitation projects for the poor and microenterprises;
- (d) An investigation of the obstacles that prevent the poor and microenterprises to obtain full benefits from trade facilitation projects. In addition, consider whether weak microfinance system and financial access are among the obstacles;
- (e) A stakeholder analysis to consider whether important stakeholders are involved in the initiation and implementation of trade facilitation projects and the economic utilization of such projects;
- (f) Identification of the weaknesses of the current microfinance system in the region that prevent the poor and microenterprises from obtaining the benefits from trade facilitation projects.
- (g) Proposals of ways to improve microfinance products as well as a system to increase the potential utilization of trade facilitation projects by the poor and microenterprises.

In-depth interviews were conducted with several stakeholders. A stakeholder analysis was

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