



# Asia-Pacific Research and Training Network on Trade

## Specific trade facilitation measures to promote export of traditional knowledge based goods – a case study of Mukdahan and Nakhon Phanom

*Dr. Kornkarun Cheewatrakoolpong and McKenzie Strobach*

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## Abstract

Due to multilateral trade liberalization and a large number of bilateral and plurilateral preferential trade agreements, border barriers to trade, especially tariffs, have decreased tremendously. As a result, trade facilitation plays an increasingly important role in removing behind-the-border trade barriers which have become a major trade obstacle. Realizing this, the Asian Development Bank (ADB) Greater Mekong Subregion (GMS) program created two important initiatives for the improvement of transportation and trade facilitation. Complementing the ADB's GMS program, Thailand has implemented several national infrastructure and trade facilitation projects. However, these trade facilitation initiatives have yet to positively impact microenterprises, especially the producers of traditional knowledge-based goods in border communities. With a renewed emphasis on rural economic growth, it is important to recognize the challenges microenterprises face and the potential benefits that could be enjoyed if proper policies were put in place to promote their economic integration. This paper illustrates the results of a survey performed by Cheewatrakoolpong et al. (2011) analyzing the main constraints microenterprises face in expanding their businesses and in export promotion. The findings suggest that better access to microfinance products and the procedure for accessing microfinance are instrumental in enabling small businesses to take advantage of trade facilitation initiatives in place. In addition, better coordination between offices of provincial development, the provincial chambers of commerce and other academies such as vocational schools or universities to provide necessary skills and knowledge to the poor and microenterprises. The community groups also have the potential to be very influential in providing knowledge sharing, skills training and access to microfinance and should be explored.

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**Keywords:** Trade facilitation; traditional knowledge, OTOP, OVOP, TRIPS, microfinance, Mukdahan, Nakhon Phanom

## 1. Overview

Due to multilateral trade liberalization and a large number of bilateral and plurilateral preferential trade agreements, border barriers to trade, especially tariffs, have decreased tremendously. As a result, trade facilitation plays an increasingly important role in removing behind-the-border trade barriers which have become a major trade obstacle.

As the costs associated with these behind-the-border barriers account for a high fraction of total trade costs, the reduction in such costs plays an important role in the promotion of international trade. Improved trade facilitation can lead to an improvement in competitiveness, an increase in foreign direct investment, an increase in the utilization of preferential trade agreements and the promotion of real outputs leading to economic growth.

Realizing the importance of trade facilitation in weakening these behind-the-border barriers, the Asian Development Bank (ADB) Greater Mekong Subregion (GMS) program includes two important initiatives for transport and trade facilitation, namely, the Economic Corridors initiative and the Cross Border Transportation Agreement (CBTA). The Economic Corridors initiative aims to improve and establish road links, construct two international bridges among the member countries, and promote trade, investment and production opportunities. The CBTA was established to improve transportation and trade facilitation among member countries via better customs operations and regulatory environments.

Complementing the two above mentioned initiatives of the ADB's GMS program, Thailand has implemented several infrastructure and trade facilitation projects. These include the improvement of basic infrastructure and the establishment of distribution centers and markets at the border locations, realignment and expansion of roads and highways connected to economic corridors, the construction of customs points and immigration-control points, the implementation of an e-customs system and human resource development initiatives.

Several papers, including Hummels (2012), Wilson et al. (2004), and Cheewatrakoolpong and Ariyasajjakorn (2011), provide strong evidence to support that trade facilitation promotes international trade and economic growth. Still controversial, however, are the benefits of these

initiatives on microenterprises, local communities and the producers of traditional knowledge-based goods, including “One Tambon One Product” (OTOP) producers.<sup>2</sup> According to Cheewatrakoolpong (2009), local communities, especially the poor, experience limited benefits from the economic corridors and CBTA of the ADB’s GMS. In many cases, the border communities experience adverse impacts from the trade facilitation and promotion initiatives due to substantial changes in job characteristics, economic structure, ways of life and environmental degradation. The problem appears to come from a lack of coordination between the government and the border communities when formulating the GMS-related policies. The evidence shows that large enterprises attain greater gains from the better trade facilitation. Therefore, a concentrated effort is needed to promote the links between local communities and SMEs with trade facilitation initiatives. The OTOP initiative is a prime example of an opportunity to establish such links. OTOP has created a strong network of producers and therefore has the potential to assist poor and rural communities in many ways, including market access, product recognition and promotion, business skills training and access to capital.

There are many potential explanations for why rural communities and microenterprises are not currently benefiting from trade facilitation initiatives. One possible explanation is an outdated and ineffective microfinance system. The poor need, inter alia, access to financial resources in order to benefit from new market access or business opportunities resulting from trade facilitation initiatives. However, a survey produced by Cheewatrakoolpong et al. (2011), found that the current system of microfinance is designed for merely short term purposes, such as working capital and consumption. Results from the survey found microfinance products available in the formal financial institutions in Thailand do not address long run objectives such as business investment. Furthermore, none of the microfinance options target border communities who could benefit from the trade facilitation measures, such as OTOP producers.

The issues addressed in this paper include microfinance improvements that could assist microenterprises in benefiting from trade facilitation, especially the producers of traditional

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<sup>2</sup> OTOP is the stimulus program initiated by former Prime Minister of Thailand Thaksin Shinawatra. The program aims to promote traditional knowledge based goods locally made in each subdistrict or “Tambon”. The program is inspired by “One Village One Product (OVOP)” of Japan.

knowledge-based goods in border communities, and also the necessity for skills training and export business knowledge in supporting the utilization of the trade facilitation initiatives. Trade facilitation measures discussed in this paper include in the second Thai-Lao Friendship Bridge, the third Thai-Lao Friendship Bridge, the East-West Economic Corridor, and related trade facilitation projects. The areas in consideration include Mukdahan province (local communities neighboring the Route R9 and the second Thai-Lao Friendship Bridge) and Nakhon Phanom province (local communities neighboring the Route R12 and the third Thai-Lao Friendship Bridge).

While in the past, Thailand's development strategy focused on foreign investment, increasing industrialization and enhancing export growth through multinational corporations, a shift in priorities has created a new appreciation for rural enterprise. The increase of rural development opportunities and traditional knowledge-based products, in particular OTOP, has been instrumental in the economic growth of rural areas in Thailand. However, the potential opportunity for export growth remains untapped for poor and rural communities, and prohibits the gains that could be acquired from national trade facilitation initiatives. This paper gives an overview of microenterprise development, discusses existing challenges and provides suggestions for improvement. Section 1 has introduced the issue, while section 2 gives a summary of the OTOP project's history and potential. Section 3 discusses the results of a survey carried out by Cheewatrakoolpong et al. (2011), which illustrates the challenges microenterprises face including difficulties in accessing financing, lack of management and marketing skills and lack of other relevant knowledge. Section 4 provides suggestions for improving microfinance products as well as microfinance process and strategies, in order to enable microenterprises and OTOP producers to effectively gain from trade facilitation in Thailand.

## 2. The history of OTOP

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