



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 then prepared in order to identify opportunities and potential negative impacts of trade facilitation measures. The analysis results will assist the poor and microenterprises to benefit, or alleviate the negative impacts, from trade facilitation measures.

The sampling method employed in the study was the purposive sampling technique. The main objective of using that technique was to enable the selection of samples that could achieve significant impacts, both positive and negative, from trade facilitation projects of interest. First, the analysis defined stakeholders – including those who might gain benefits or incur costs – who were relevant to policy formulation or implementation of trade facilitation

¹ See www.adb.org/GMS/Cross-Border/default.asp.

measures. In the case of local communities and microenterprises, samples were selected from those residing in the communities near trade facilitation projects.² Interviews were also conducted with the provincial chambers of commerce, the microenterprises in the Muang districts³ and local communities near the trade facilitation projects, and One Tambon One Product (OTOP) programme⁴ leaders and members.

The relevant stakeholders⁵ are the poor, microenterprises, self-help groups, village funds and saving groups in border communities of Mukdahan and Nakhon Phanom provinces, the Government Saving Bank, the Bank for Agriculture and Agricultural Cooperatives, chambers of commerce, relevant government agencies such as border checkpoint officers, the Office of Commercial Affairs, and the community development officials.

In order to analyse the production or service activities that benefit from trade facilitation measures, the involvement of the poor and local communities in such production and activities, and the necessary support that they need for higher involvement, the stakeholder analysis detailed by Cheewatrakoolpong (2009) was utilized. The sectors and service activities were selected for the analysis based on their help in improving the welfare of the poor and microenterprises and resulted in them benefiting from trade facilitation measures. They included: (a) the agricultural sector (sugar cane, fruit, vegetables and cassava); and (b) service sectors (tourism, logistics and retail trading). These sectors have the highest potential to obtain benefits from the East-West Economic Corridor project according to Chirathivath and others (2003).

Once the sectors or activities were identified, the analysis used the framework suggested by Brand (1998) and Cheewatrakoolpong and others (2011) to develop and improve the microfinance products as well as the system that promotes the utilization of trade facilitation initiatives. This framework includes:

- (a) Product development – this includes the characteristics of microfinance products, target groups, terms and conditions, pricing, and distribution channels;
- (b) Process development – ensuring that microfinance products can reach the poor efficiently and economically (this includes the introduction of IT and capacity-building);
- (c) Strategic development – ensuring microfinance products are available to the poor and promoting financial discipline of the poor to the institutions' commitments.⁶

² Community leaders were included in the samples.

³ Muang districts are regarded as the central community of provinces.

⁴ The One Tambon One Product is a product stimulus programme that utilizes local types of traditional knowledge.

⁵ The interviewed stakeholders are listed in 1.

⁶ Examples are group lending and social sanction.

2. Overview of trade facilitation initiatives and microfinance system in Mukdahan and Nakhon Phanom provinces

This section provides the basic background regarding trade facilitation and related macroeconomic figures as well as microfinance systems in Thailand's Mukdahan and Nakhon Phanom provinces.

2.1. Trade facilitation measures

(a) Mukdahan province

Mukdahan is an important Thai province in the EWEC project. The objective of EWEC is to connect the Pacific Ocean with the Indian Ocean via the Asian Highway. The network begins with Route AH16 from Da Nang port and the city of Hue in Viet Nam, then along Route 9 to Savannakhet in the Lao People's Democratic Republic and through Thailand's Mukdahan, Kalasin, Khon Kaen, Petchabun, Phitsanulok and Tak provinces to Myanmar's Gulf of Martaban in Moulmein. The total distance is approximately 1,600 kilometres (km).⁷

As a part of the programme, the Second Thai-Lao Friendship Bridge between Savannakhet and Mukdahan provinces was completed in 2006. The bridge, which is 2.7 km in length, has improved trade facilitation for cross-border and trans-border trade tremendously. Previously, commercial trucks needed to transit to the Lao People's Democratic Republic border via a barge at Baan Na Po Noi. Using the barge to cross Mekong River involved a waiting time of around 45 minutes and approximately 90 minutes to 2 hours in total to reach the border of the Lao People's Democratic Republic. The construction of the bridge has also resulted in an increase of transit trucks from approximately 17,000-18,000 trucks per year during 2002-2005 to 24,063 trucks and 42,226 trucks in 2006 and 2007, respectively (Cheewatrakoolpong and Rujanakanoknad, 2011).

The Customs Office and border crossing points in Mukdahan province use a paperless processing system and random product checks with X-rays. The approximate total time involved in the customs procedures and reaching the border of the Lao People's Democratic Republic is 16.1 minutes (Cheewatrakoolpong and Rujanakanoknad, 2011). The border crossing points in Mukdahan are also part of the pilot project for CBTA under the GMS programme. It will also implement a one-stop service and a common control area in the future to reduce duplication in customs procedures between the borders of Thailand and the Lao People's Democratic Republic. The implementation of CBTA is still waiting for Thailand to ratify some annexes and protocols.

⁷ Department of Highways data, 2012.

(c) Nakhon Phanom province

Nakhon Phanom is part of the Asian Highway Network on the AH15 route that connects that province with Udon Thani and Sakon Nakhon provinces in Thailand via Route 8 or Route 12 in the Lao People's Democratic Republic to Vinh province in Viet Nam. The Third Thai-Lao Friendship Bridge connecting Nakhon Phanom province in Thailand and Khammouan province in the Lao People's Democratic Republic was built and officially opened on 11 November 2011. The bridge also supports traffic changeover due to the difference in traffic systems between Thailand and the Lao People's Democratic Republic. The route shortens the distance between Nakhon Phanom and Hanoi to 643 km and between Nakhon Phanom and Nanning to 1,029 km.⁸

Before the construction of the bridge, shipping agencies and exporters relied on a barge to cross from Thailand to the Lao People's Democratic Republic. The trip took approximately 15-20 minutes to reach the Lao People's Democratic Republic, depending on the level of both the Mekong River and river traffic congestion. The barge was able to transport approximately 30 trucks per hour (Cheewatrakoolpong and Rujanakanoknad, 2011).

The custom procedures here, which use the paperless system but without random X-ray checks, take approximate 16.7 minutes (Cheewatrakoolpong and Rujanakanoknad, 2011). The new Thai customs checkpoint office at the bridge is not yet fully developed. However, the future plan for the Nakhon Phanom border checkpoints also includes: (a) the implementation of a one-stop inspection; (b) construction of bypass highways to connect Route 22 with Route 212 to avoid congestion in the urban area; and (c) construction of logistics and distribution centres near the bridge, to facilitate trans-border and cross-border activities.

2.2. Related macro-economic figures

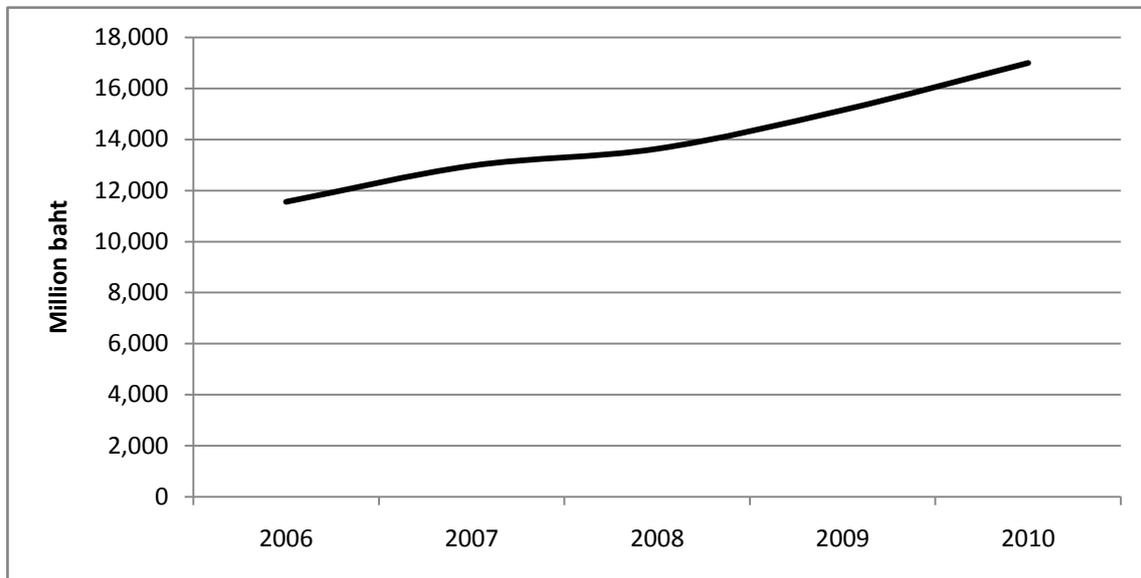
(a) Mukdahan province

Mukdahan province is a border province of Thailand's north-eastern region that enjoys tremendous benefits from trade facilitation measures. The evidence of gross provincial product (GPP) and the number of people below the poverty line confirms such benefits (figures 1 and 2). The province has experienced higher GPP growth and a decline in the number of people below the poverty line since the establishment of the Second Thai-Lao

⁸ Ibid.

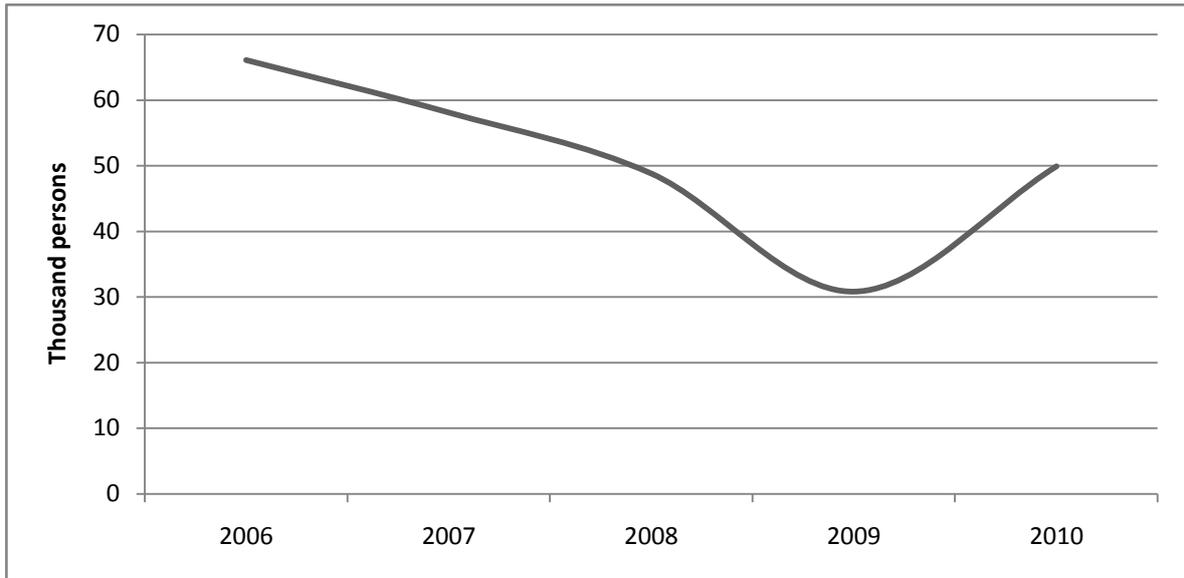
Friendship Bridge in 2006. The average annual GPP growth rate was 6.3 per cent during 2002-2005 (before the completion of the Thai-Lao Friendship Bridge), after which it increased to 10.9 per cent during 2006-2010.

Figure 1: GPP in Mukdahan



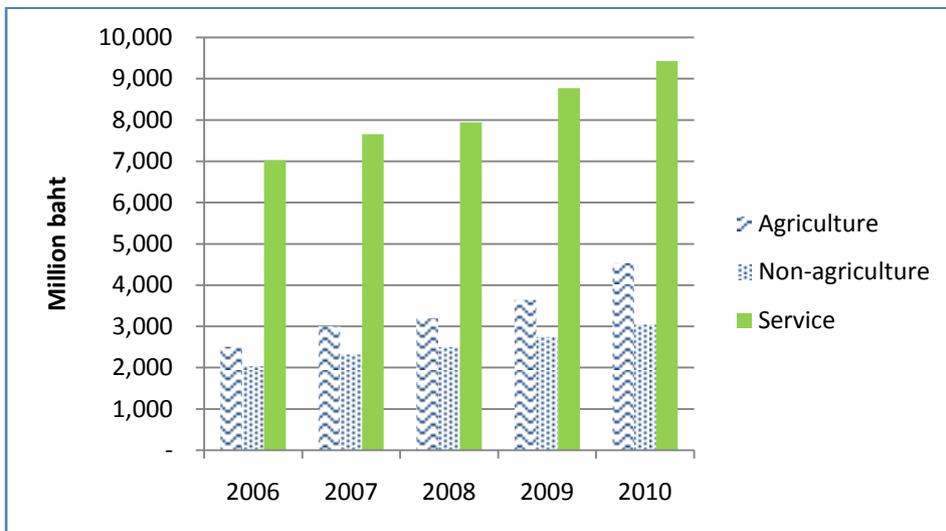
Source: National Statistics Office

Figure 2: Number of persons below the poverty line in Mukdahan



ii Source: National Economic and Social Development Board. Data on the agricultural and service sectors as indicated in figure 3. The primary agricultural products are rice, rubber and sugar cane while the important service sectors include construction, retail and wholesale, logistics, hotels, residential services and health-care services (figure 4)

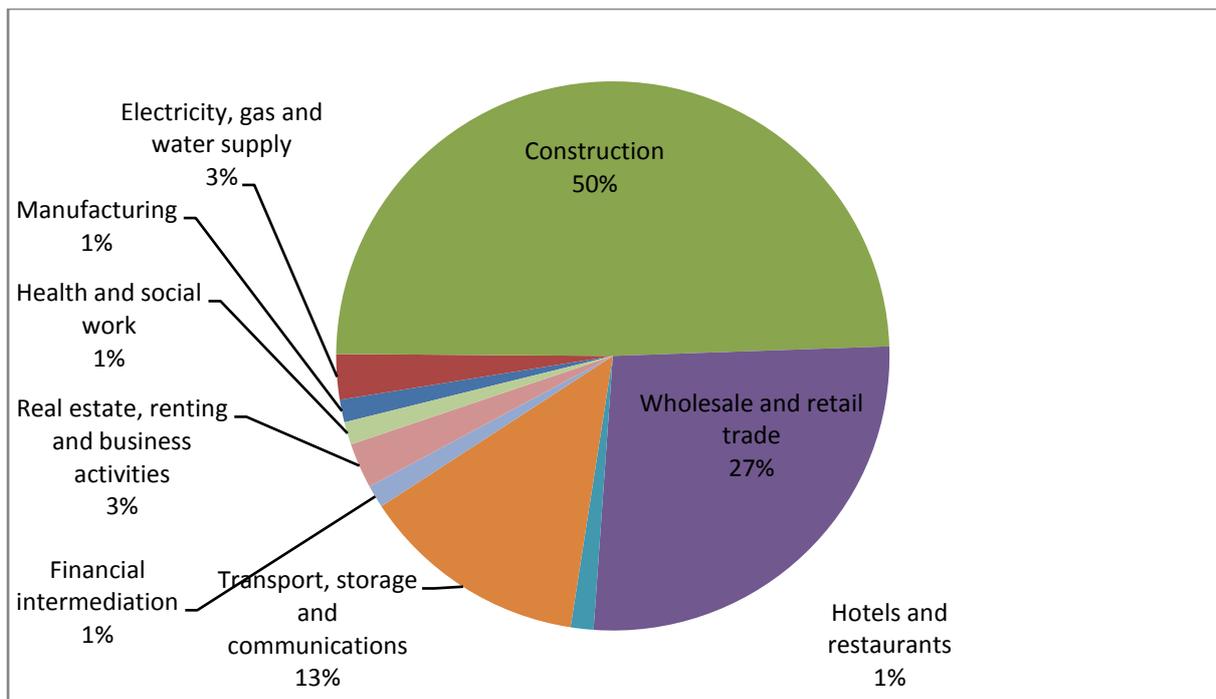
Figure 3. GPP by economic activity in Mukdahan



Source: National Economic and Social Development Board

Figure 4. Establishment of juristic persons in Mukdahan province, 2008⁹

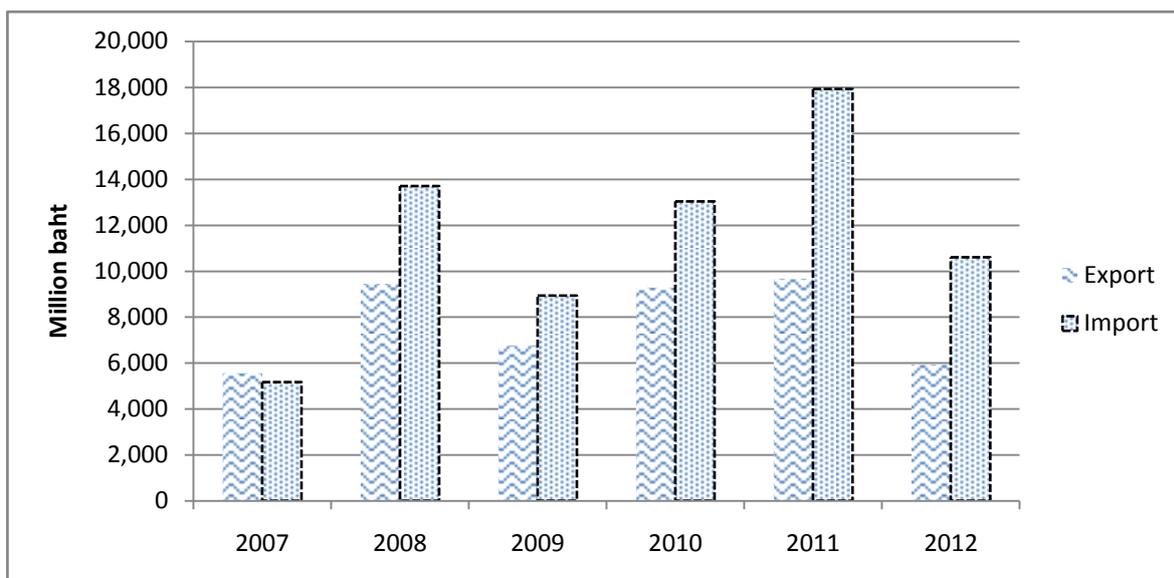
⁹ According to Thailand's Civil and Commercial Codes of Law, a juristic person in Thailand is defined as a legal personality separate from those who own or manage a business. Examples of juristic persons are public



Source: National Statistical Office.

With regard to cross-border trade, since the completion of the bridge in 2006, total cross-border trade in Mukdahan has increased significantly (figure 5). Important cross-border trade products include electronics and electrical appliances, energy supply, consumer products, automobiles and livestock (table 1).

Figure 5. Cross-border trade in Mukdahan



Source: Bank of Thailand

Table 1. Top 10 cross-border products in Mukdahan, 2010

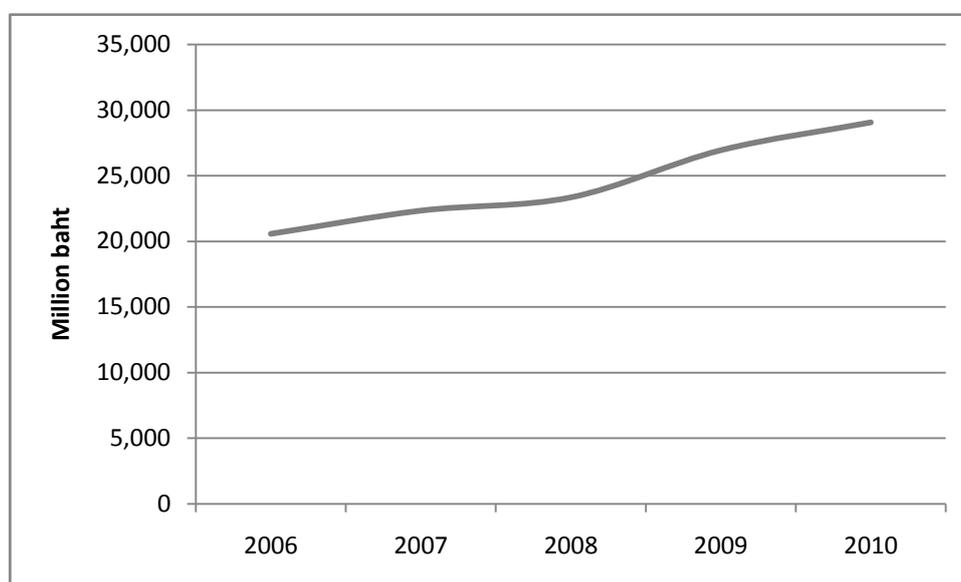
Product	Value
Computers and parts	7 328.56
Storage units	2 258.26
Oil and gasoline	1 444.43
Drilling machineries and containers	1 362.54
Consumer products	1 275.12
Electrical appliances and electronic parts	492.27
Livestock	488.07
Automobiles	285.57
Monosodium glutamate	249.75
Energizing beverages	234.13
Others	4 852.29
Total	20 270.99

Source: Mukdahan Customs Office

(b) *Nakhon Phanom province*

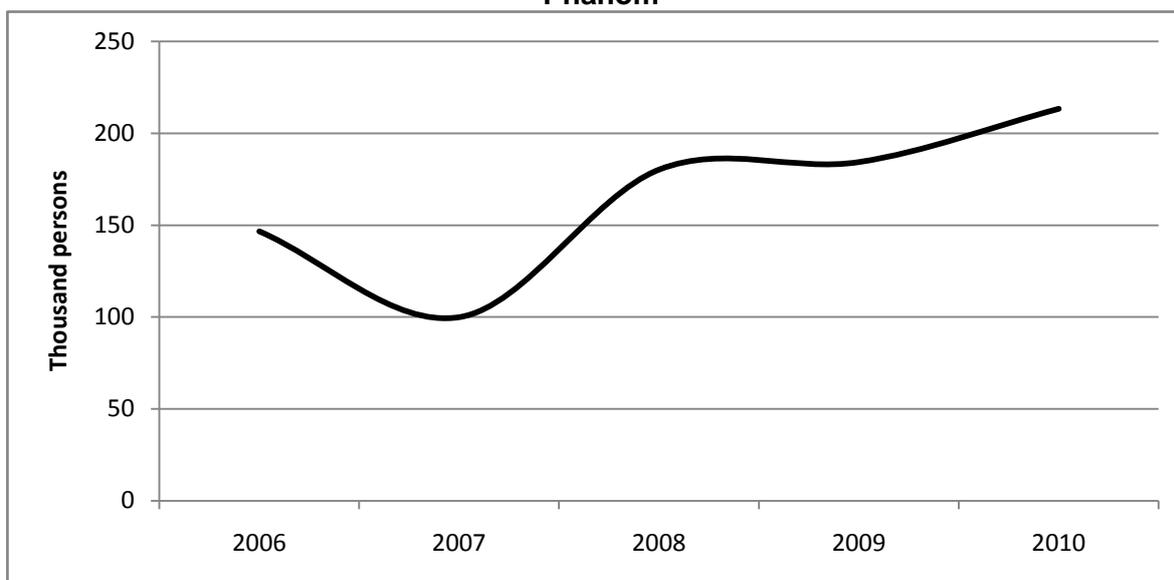
Nakhon Phanom province has suffered from poverty for many years. It is among the top 10 provinces of Thailand with the highest percentage of the poor to total population. According to Na NongKai (2012), poverty problems in Nakhon Phanom province are the result of loan sharks and insurmountable debts, a lack of proprietary land rights and insufficient employment opportunities. The impact of trade facilitation measures on Nakhon Phanom province remains unidentified because construction of the third Thai-Lao Friendship Bridge was only completed in November 2011. However, even before the completion of the bridge, Route 12 was being utilized for transportation of several types of products to Viet Nam and China, including fresh fruit. In the past decade, Nakhon Phanom has experienced an increase in economic growth, but the absolute number of people below the poverty line is continuing to increase (figures 6 and 7). The evidence indicates unequal distribution in economic growth among the population of the province. A possible explanation is that the major beneficiaries of Route 12 are the exporters of agricultural products such as livestock, fresh fruit and rubber. Most of the beneficiaries of trade facilitation in Nakhon Phanom province are not the poor.

Figure 6. GPP in Nakhon Phanom



Source: National Statistical Office

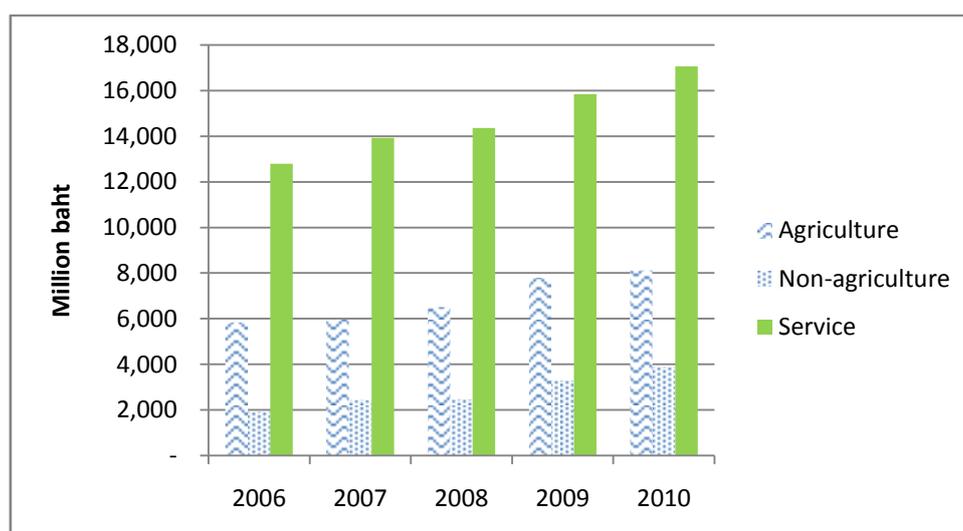
Figure 7. Number of people below the poverty line in Nakhon Phanom



Source: National Economic and Social Development Board

While Nakhon Phanom has experienced a gradual increase in the service sector, the manufacturing sector has remained constant during recent years (figure 8). The main service activities are construction, retail and wholesale, motorcycle and vehicle repair, logistics, real estate and renting services, and health-care services (figure 9).

Figure 8. GPP by economic activity in Nakhon Phanom



Source: National Economic and Social Development Board

Figure 9. Establishment of juristic persons in Nakhon Phanom province, 2008

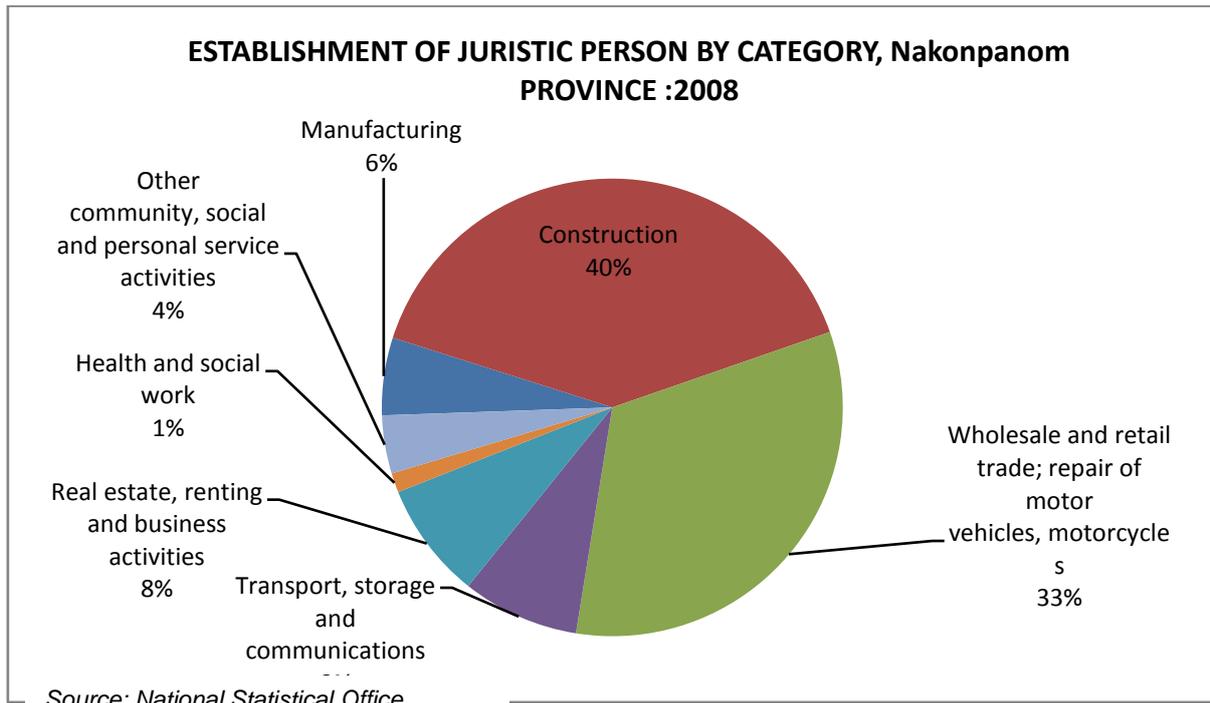
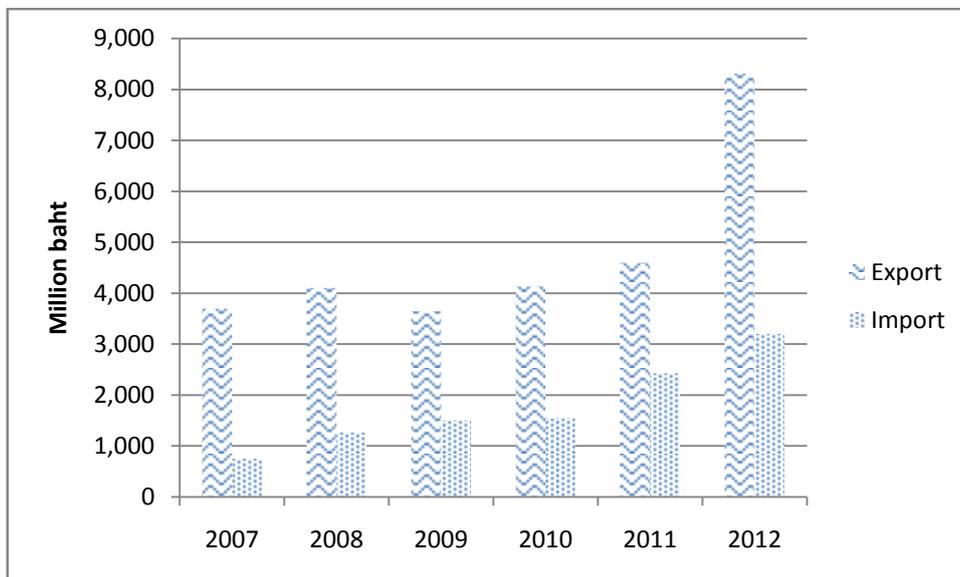


Figure 10. Cross-border trade in Nakhon Phanom



Source: Bank of Thailand.

Cross-border trade is relatively low in Nakhon Phanom compared with Mukdahan, but statistics show an upward trend (figure 10). However, an increase in cross-border activities was expected to occur in the province following the completion of the Thai-Lao Friendship Bridge project in November 2011. The important cross-border export products passing across the Nakhon Phanom border are oil and petroleum, construction materials, pet food, livestock, machinery, and automobiles and automotive parts (table 2).

Table 2. Top 10 cross-border products in Nakhon Phanom 2010

Products	Value
Diesel fuel	440.18
Automobiles and automotive parts	192.04
Iron and steel	279.88
Iron and steel products	186.86
Pet food	102.90
Petroleum	87.28
Construction machinery and parts	269.93
Livestock	123.75
Other machinery and parts	34.76
Other vehicles and parts	124.33
Others	1 079.50
Total	2 921.40

Source: Nakhon Phanom Customs Office

2.3. Microfinance System

The development of a microfinance system in Thailand was initiated in 2001 with the launch of the 1 million baht village fund. At that time, the Bank of Thailand implemented the financial system development plan during 2004-2009. One of the principles of the development plan was to promote the coverage of financial services for all people, which resulted in the implementation of the microfinance master plan in Thailand during 2008-2011. The involved microfinance institutions according to the master plan comprised the Government Saving Bank (GSB) and the Bank for Agriculture and Agricultural Cooperatives (BAAC), village funds, saving groups and other informal financial institutions. The semi-formal and informal financial institutions received support from the provincial community development offices.¹⁰ The current microfinance master plan for 2010-2014 also promotes the involvement of

¹⁰ The semi-formal financial institutions are the specific institution to support saving and lending activities in the specific area. The institutions are initiated or supported by the Government. The examples of semi-formal financial institutions in Thailand are village funds and saving groups. The informal financial institutions are the self-help groups initiated by the members in the same area or occupation groups. The institutions or groups are organized and managed by their members without support from the Government.

commercial banks in microfinance services, the development of microfinance infrastructure including a credit information system and rating system, and the promotion of the specialized financial institutions.

Even though the microfinance master plans have been implemented for several years, the microfinance system in Thailand is still underdeveloped. The Economist Intelligence Unit (2011), which assigns ratings to microfinance markets in 55 developing countries, listed Thailand at 50. The problem is that Thailand has no formal financial institutions with microfinance services as their main goal. In fact, microfinance activities are concentrated in the government banks, which have several missions other than microfinance. In addition, the annual interest ceiling of 28 per cent prohibits the involvement of other commercial banks in microfinance services. The development of semi-formal or informal microfinance institutions is inconsistent and depends on government policies.

According to the Department of Community Development, 47 per cent of saving groups in 2010 were located in north-eastern Thailand.¹¹ However, most of the saving groups in that region are weaker than the groups in other regions of the country. Cheewatrakoolpong and others (2011) showed that the north-eastern population with low incomes mostly depended on BAAC for financing purposes. About 35 per cent of poor people in the north-east have no financial access to formal and semi-formal financial institutions. Also, 69 per cent of poor people with no financial access in that region rely on loan sharks.

Both Mukdahan and Nakhon Phanom provinces have a large number of savings groups compared with their sizes, both in terms of GPP and population. However, most of the savings groups are relatively weak as classified in Class 1.¹² The classification is carried out by the Department of Community Development. Indicators of the strength of savings groups include accounting ability, loan repayment ability of members, group regulations and rules, and members' benefits.

3. Survey Results

This section reviews the survey results. The list of interviewed agencies and individuals is given in annex 1. The survey questions are listed in annex 2. The purpose of the survey was to identify the impact of trade facilitation measures in Mukdahan and Nakhon Phanom

¹¹ "Saving groups" or "Saving groups for production" are semi-formal financial institutions in Thailand, organized or supported by the Department of Community Development to stimulate savings activities and increase financial access by the members in a specific area. There were 34,530 saving groups as of 2010 according to the Department of Community Development.

¹² The Department of Community Development categorizes the development of saving groups into Class 1, Class 2 and Class 3. Class 3 comprises the most developed or strongest saving groups while Class 1 comprises the least developed or weakest saving groups. The classification is based on the groups' organization and procedures, asset management and resources, development capacity and benefits for members.

provinces on the poor and the obstacles they face in obtaining benefits from trade facilitation measures

3.1. Impact of trade facilitation measures on the poor

This study considers the impact of trade facilitation measures in Mukdahan and Nakhon Phanom provinces on the poor by dividing such effects into the impact on overall economic growth and income of the poor, migration flow and social impacts.

(a) Economic growth and income

The interviews with relevant stakeholders, including provincial government agencies, entrepreneurs and villagers, confirmed that the construction of the Thai-Lao Friendship Bridges in both provinces as well as the implementation of other trade facilitation-related initiatives had promoted economic growth and increased income of the population in the two provinces.¹³ This comes from several factors, which are detailed below.

(i) Job creation and job diversion

Trade facilitation initiatives create jobs in several sectors, as discussed below. This leads to more employment, higher wages and greater profits for entrepreneurs and microenterprises. That, in turn, promotes the economic growth and well-being of the population. However, in some cases, the implementation of trade facilitation measures destroys opportunities in some occupations in the provinces due to more competition from expatriate workers, both from other regions in Thailand and from neighbouring countries.

(ii) An increase in investment

The implementation of trade facilitation measures and better access to neighbouring countries make Mukdahan and Nakhon Phanom attractive to investors in a number of sectors. The two provinces have seen many projects and business start-ups by investors from other regions of Thailand as well as from neighbouring countries, ranging from food and agricultural processing industries, superstores, restaurants and hotels, to hospitals, logistics, recycling industries and retail stores among others. The big enterprises comprise rubber processing, tapioca processing and recycling industries, logistics services, hospitals, superstores and distribution centres. Small enterprises have also opened businesses such as restaurants, coffee shops and tour guide services. Such investment promotes employment, income and economic growth.

(iii) Increase in land and real estate prices

¹³ Sample selection and sampling method are explained in Section B.

Trade facilitation measures have led to higher asset prices in the provinces, especially land and real estate prices. An increase in asset prices improves people's living standard, particularly in border communities. According to the survey interviews, there has been a notable increase in land prices in the border areas, especially around the bridges. For example, land prices in Baan Hom (the closest area to the Third Thai-Lao Friendship Bridge) have increased more than four times since the completion of the bridge. Many villagers at Baan Hom have gained large sums of money by selling their land, in many cases to speculators and corporate enterprises from other regions. However, the long-term effect of this land and real estate price bubble among border communities may actually prove to be negative as many of the villagers will have to start up their occupations again in other unfamiliar areas.

(b) Impact on specific sectors

(i) Agricultural sector and local products

As in other provinces in the north-eastern region, agriculture has long been the most important sector in Mukdahan and Nakhon Phanom provinces, with rice, sugar cane and tapioca accounting for the main agricultural products. Recently, there has also been an increase in rubber plantations and the rubber processing industry in the two provinces.

The establishment of trade facilitation measures eased transportation of agricultural products originating from the two provinces as well as products in transit from other Thai regions to China and Viet Nam. China is a major importer and consumer of agricultural products such as rice, tapioca and rubber. Therefore, the measures have increased the opportunities for rural and border communities in the provinces to access the Chinese and Vietnamese markets. In addition, according to the interviewees, Mukdahan province is the centre for rubber processing industries and rubber distribution in the north-eastern region due to the advantages of its location.

Both China and Viet Nam import fresh fruit from Thailand. Therefore, exporters from other regions of Thailand depend on trade facilitation measures in Mukdahan and Nakhon Phanom provinces for transportation of their products to southern China and central Viet Nam. Exports of these products create opportunities for logistics and transport businesses in the two provinces. Before the establishment of Route 12, it was not possible to export fresh fruit to southern China due to the long shipping time which resulted in fruit going rotten before delivery. Therefore, trade facilitation measures have created new markets for such products. Also, fresh fruit exports to Viet Nam can now be sold at higher prices since the quality is better.

Moreover, according to the interviews with chambers of commerce and Provincial developers¹⁴, both countries are highly interested in importing organic rice from the two provinces, even though there are tariff and non-tariff barriers on rice in Viet Nam and China, The organic rice is produced by rural and border communities and it has a high value-added. Exports of packages of organic rice weighing up to 1 kilogram are allowed to Viet Nam and China.

Another opportunity in the agricultural sector is contract farming with the Lao People's Democratic Republic. As the Lao People's Democratic Republic is gifted with natural resources and fertile land for plantations, investing in agriculture and agricultural processing industries in that country is promising. The agricultural products of greatest interest are rice, rubber, livestock, sugar cane and sugar, soybean and soybean oil.

However, according to the interviews, the major obstacle faced by the poor and microenterprises in investing in the Lao People's Democratic Republic is the requirement for long-term expertise and skills in such production projects by the Government of the Lao People's Democratic Republic and the need for huge capital to set up business there.

According to the interviews with the OTOP group and the chambers of commerce, many local products and OTOP products can be exported to Viet Nam and China. The high products with high potential include organic rice in small packets, silk, fermented mud cloth, indigo dyed cloth, cattle from Nong Sung district and wicker baskets. Some products such as fermented mud cloth have received high export sales volumes. Also, some OTOP groups and local communities import materials such as rattan, wood and cloth from the Lao People's Democratic Republic.

However, according to the interviews, it was found that some obstacles are experienced by local communities, OTOP groups and microenterprises in taking advantage of such opportunities. These obstacles are mainly a lack of capital, management and marketing skills, financial knowledge, designing skills and manpower.

(ii) Service sector

According to the interviews, the service sector has experienced the highest positive impact from the implementation of trade facilitation initiatives in the two provinces, especially in

¹⁴ Provincial developers are the government officers under the Ministry of Interior responsible for developing rural residents in three areas, i.e., poverty reduction, health care, and knowledge promotion.

tourism, hotels and restaurants, logistics services, retail and wholesale businesses, education and health-care services.

Due to an enormous increase in tourists, businessmen and gamblers who transit through Mukdahan and Nakhon Phanom provinces when visiting the Lao People's Democratic Republic and Viet Nam, the tourism-related businesses have prospered in recent years. The sectors that benefit the most include tour guides, tour coordinators, hotels, restaurants, car and van rental services, and hired drivers. According to the interviews, there has been a distinctive rise in such businesses and services in Mukdahan province. The private sector and local communities have recorded a rise in the number of hotels, restaurants, coffee shops, tour guide services and car rental services. Moreover, tour operators in Mukdahan confirmed a sharp increase in the number of tourists from other regions of Thailand, leading to business expansion and the establishment of cooperation with Vietnamese tour guide companies.

However, it is worth noting that there is a difference in the promotion of tourist-related services in Mukdahan and Nakhon Phanom provinces. In Nakhon Phanom province, the tourism benefits are still not as evident yet due to two main reasons. First, the bridge in Nakhon Phanom was only completed in November 2011. Second, Khammouan province, Nakhon Phanom's twin city in the Lao People's Democratic Republic, is a small province with a lower population compared with Savannakhet. Also, many ecological tourist attractions along Route 8 and 12 are still hard to access. However, according to the interviews, provincial government agencies and the private sector expect high growth in this sector in the future.

Logistics services are also gaining huge benefits from the trade facilitation measures in the two provinces. The second Thai-Lao Friendship Bridge in Mukdahan and Route 9 are part of the East-West economic corridor connecting Myanmar, Thailand, the Lao People's Democratic Republic with Viet Nam and the Danang sea port. The third Thai-Lao Friendship Bridge connects Nakhon Phanom province via Route 8 and 12 in the Lao People's Democratic Republic, which allows transit to Viet Nam and the South China Sea. As a result, both provinces can be used as outlets to transport products and people to the Lao People's Democratic Republic, Viet Nam and China. These routes are used to transport products, particularly fresh fruit, construction materials, fertilizers, consumer products, electronics and electrical appliances and automotive parts. According to the interviews with the provincial chambers of commerce, logistic services expanded enormously after the construction of the bridges, creating employment for drivers, office staff and operational workers.

The impact of trade facilitation measures on retail and wholesale services have been mixed. According to the interviews, there have been some negative impacts from the trade facilitation measures. Before the bridges were opened, microenterprises in Mukdahan and Nakhon Phanom provinces transported consumer products by boat to the Lao People's Democratic Republic. However, the bridges have made it easier and more convenient for Lao people to visit Thailand to buy consumer products from newly-established supermarkets. In addition, the superstores are eliminating retail and wholesale microenterprises.

However, specific retail and wholesale services have benefited from the trade facilitation measures. Microenterprises selling packaging and containers have seen major increases on business as sales orders for many products such as silk, fermented mud cloth, indigo dyed cloth and wicker baskets have risen rapidly. Wholesale enterprises selling automotive parts, IT products and electrical appliances have also recorded greater sales to the Lao People's Democratic Republic and Viet Nam.

In the case of educational services, the interviews revealed the fact that many Vietnamese students come to study tourism management and the Thai language to become tourist coordinators. Also, many Lao and Vietnamese students enroll at vocational training schools in Mukdahan and Nakhon Phanom provinces. Most Lao students earn scholarships to pursue their studies in Thailand under the capacity-building projects of the GMS programme. The educational programmes attracting Vietnamese and Lao students are mostly short courses on tourism and hotel management as well as training for technicians and mechanics.

Health-care services have also experienced a positive impact from trade facilitation measures. The interviews indicated that there had been an increase in health-care providers and clinics in the two provinces. Many patients receiving therapy at hospitals and clinics in these provinces came from the Lao People's Democratic Republic and Viet Nam. However, it is important to note that some of the patients receive free health-care services as part of the benefits for foreign workers from neighbouring countries. The interview with health-care providers in border communities indicated potential problems regarding undercapacity of health-care services due to subrogation of such benefits by foreign workers' family members or relatives.

(c) *Migration flows*

The trade facilitation measures have led to migration, both from neighbouring countries and from other provinces of Thailand. The purposes of migration can be job seeking, investment, permanent residence and asset speculation.

Similar to other provinces of Thailand, Mukdahan and Nakhon Phanom are facing a lack of workers, especially housekeepers, servants, waitresses and other manual labourers. As a result, there is a steady flow of such workers from the Lao People's Democratic Republic to the two provinces. Labour migration has intensified as a result of the recent increase in Thailand's minimum wage requirement. However, from the interviews it became apparent that this labour migration was not resulting in unemployment among local people because foreign workers were filling the positions that local workers did not want to take up. However, the interviews with microenterprises and local workers indicated that labour migration from neighbouring countries might eventually cause a slow increase in local workers' wage rates, many of whom still receive salaries that are lower than the official minimum wage. The survey showed that labour migration mainly affects the income of blue-collar workers.

Some foreign workers also work as skilled labour. One example is that of Vietnamese who work as tourist coordinators for tour guide enterprises in the provinces.

Problems arising from labour migration may be related to the presence of illegal/unregistered foreign workers. Illegal foreign workers do not undergo health certification procedures and lack access to legal counselling bodies. As a result, they can lead to a greater negative social impact such as the introduction of contagious diseases or increases in crime (see below).

The interviews also indicated that other reasons for migration included land speculation and changing residence. Permanent residential movement of Thai people from other provinces, especially in the north-eastern region, has shown a marked increase. Many people were moving permanently to Mukdahan and Nakhon Phanom provinces to seek business and career opportunities in order to improve the well-being of their families since trade facilitation measures had created more employment opportunities, better infrastructure, and improved educational and health-care services.

(d) *Social impacts*

According to Cheewatrakoolpong (2009), local communities and especially the poor enjoy only limited benefits from the economic corridors and CBTA of the GMS programme. In many cases, the border communities are experiencing negative impacts from the initiatives due to substantial changes in job characteristics, economic structure, their way of life and

the environment. The problems stem from a lack of coordination between the Government and the border communities during the formulation of the GMS-related policies. Stone and others (2010) also pointed to the negative impacts, and which cannot be addressed by the CGE model, on the poor from trafficking, traffic accidents, environmental effects and income disparities.

The interviews revealed negative impacts from the measures such as gambling, drugs, contagion and diseases, and prostitution.

(i) *Gambling*

Gambling was one of the biggest concerns among all stakeholders interviewed. Casinos are prohibited from opening in Thailand by law but there is a big casino in Savannakhet called “Savan Vegas”. Also, the opening of another casino is planned in Khammouan. The easy access to the casino is creating a gambling addiction problem among many local people in Mukdahan. Most gambling addicts are from the poor and middle-income groups such as manual workers, provincial government officers, teachers and nurses.

Gambling is responsible for several problems such as robbery, drug trafficking, human trafficking and other crimes as well as suicide, serious debt and poverty. Many gamblers resort to car theft, drug trafficking and human trafficking in order to repay their debts. Some have committed suicide due to huge gambling debts.

Furthermore, the casino uses the network system to bring more clients from all regions in Thailand. The van drivers earn commissions when they can persuade clients to visit the casino. In addition, only limited control of casino visits by Thai people is exercised by the Government of Thailand. Enormous advertisements for the casino can be seen in many areas such as on [sky lab cars](#)¹⁵ and taxis. People who pass the border checkpoint to visit the casino are assisted rather than controlled. There are even supporting facilities such as banks, ATM machines, rental cars and vans at the border crossing areas for people visiting the casino.

(ii) *Drug trafficking*

There are two major reasons for drug trafficking in Mukdahan and Nakhon Phanom provinces. First, as mentioned above, many gamblers attempt drug trafficking in order to repay their debts. Second, the intense suppression of drug trafficking and stricter controls at other border crossing points such as Mae Sod in Tak province and Mae Sai in Chiang Rai province has led to drug dealers attempting to use the other border crossing points such as Mukdahan and Nakhon Phanom for their drug trafficking.

¹⁵ Sky lab cars or “Tuk Tuks” are auto rickshaws found in Thailand.

(iii) *Diseases*

Labour migration from the Lao People's Democratic Republic is also of concern from the perspective of health issues. As the Lao People's Democratic Republic is underdeveloped in terms of its health-care system, labour migration may result in the spread of contagious diseases, some of which have disappeared from Thailand. The main concern in this area is that illegal immigrants who may avoid health certification procedures required by Office of Foreign Workers' Administration.

Some health-care providers have also voiced concern about the subrogation of foreign workers' health-care benefits as the number of foreigners who have received related benefits is higher than the number of registered foreign workers. According to the Alien Employment Act of Thailand, low-skilled migrant workers with work permits or registered foreign workers have to pay a fee to obtain universal health care coverage. However, health-care providers in the public hospitals near the border checkpoints have pointed out that many relatives or family members obtain health-care benefits under the name of the migrant workers. This has resulted in a burden being placed on the public health budget and created an undercapacity of health-care providers.

(iv) *Prostitution*

Prostitution as a result of trade facilitation measures is another cause for concern among all stakeholders. The interviews with the relevant stakeholders revealed that some Lao women now take advantage of the improved links provided by the Thai-Lao Friendship Bridges and other connecting roads between Thailand and the Lao People's Democratic Republic to provide sexual services in the two provinces. Prostitution by Lao women is practiced openly in many areas such as at the Glass Tower in Mukdahan province. The interviews also revealed a growing number of sex tours were being organized for inhabitants of Thai communities in Mukdahan and Nakhon Phanom provinces to visit prostitutes in the Lao People's Democratic Republic. A related problem that is also of serious concern is the danger of the spread of HIV.

(v) *Loss of residential and work places*

The construction of the bridges and related projects, such as the establishment of customs offices, distribution centres and product exhibition centres, requires the expropriation of land in local communities such as Baan Hom. Although some of the villagers had occupied land without propriety rights, they had lived there for several generations. The expropriation, which provides little compensation, involves a slow dispute settlement process with provincial government agencies and a lack of planning to alleviate the negative impact on local communities. Recently, the Member of Parliament for Nakhon Phanom had to act as a

mediator in solving such a problem by offering the villagers substitute plantations and residential areas.

4. Financial access problems and other obstacles facing the poor in benefiting from trade facilitation measures

Financial access is one of the main obstacles facing the poor in benefiting from trade facilitation and increased business opportunities. This problem is related to the peculiarities of the microfinance system in Thailand, and in the two provinces under study in particular.

Two types of microfinance institutions are available in Mukdahan and Nakhon Phanom provinces, i.e., formal institutions and semi-formal and informal institutions. The major formal microfinance institutions are BAAC and GSB. The semi-formal and informal institutions are village funds and savings groups in the local communities.

In the case of formal institutions, GSB provides microcredit in the urban areas to vendors in fresh food markets via the People's Bank Project in the form of group lending. The loan terms are flexible with a duration of up to eight years at an interest rate of between 0.5 per cent and 0.75 per cent per month. The maximum loan amount is Baht 200,000. However, the bank has experienced high non-performing loans in this project due to weak social linkages among borrowers in the same group. As a result, the GSB branches tend to limit microcredit under the People Bank Project to previous customers with good savings history. In addition, GSB has changed the condition for loans from group lending to a requirement for two guarantors. Some branches only lend money according to the People Bank project to employees with guarantors instead of to vendor groups in the markets. The interview with GSB in Nakhon Phanom revealed that loans to vendors in markets only accounted for 20 per cent of the total loans under the People Bank Project.

In addition, GSB provides loans for saving groups and village funds under the rural development project. However, according to the interviews with GSB officers, the project is unsuccessful. There are no loans according to this project in the branch in Muang district of Mukdahan since the strong savings groups have no need to depend on external finance while the small groups are not strong enough to be granted GSB loans. In Nakhon Phanom, GSB has high non-performing loans under this project.

The aim of BAAC is to provide loans to farmers and their families also with low interest rates and flexible loan conditions. However, the loans are limited to farmers with the proprietary land rights. As a result, poor farmers and agricultural employees may be unable to access loans provided by BAAC. Both GSB and BAAC experienced an increase in requests for

microfinance loans following the implementation of trade facilitation measures in both provinces. Many farmers have requested loans for sugar cane and rubber planting. Trade facilitation has also increased the volume of sales in fresh food markets and in exports to the Indo-China market, which has boosted the ability of market vendors to repay their debts.

In addition to village funds and saving groups, the Thai Women Empowerment Fund is another type of microfinance institution.¹⁶ However, interviews with related government agencies and banks showed that those groups in both provinces are relatively weak compared to saving groups in other regions of Thailand. The committees of the strong groups have a policy of depending on the groups' savings rather than on external finance, and they follow the philosophy of the sufficiency economy. Some local communities also rely on their children who seek jobs in the major cities and send money back home. Therefore, they have no inclination to ask for loans and expand business on their own. Some members of the groups claim that the loans they receive from the village funds and saving groups are lower than what they need, but if they use the money for occupational purposes such as raising farm animals and buying farming materials, the loans can still improve their well-being and raise their financial status. The difficulties that they experience arise from the fact that many members of the groups use their loans for consumption purposes such as buying cars.¹⁷

The interviews revealed other obstacles, which showed that improvement in microfinance alone will not be enough to help the poor and microenterprises. The most important obstacles are the lack of management, marketing and designing skills among the poor and microenterprises for making their products more suitable to meeting the requirements of the final consumers in Viet Nam and China. They also lack economic and market knowledge. Therefore, they need additional support in terms of capacity-building, business matching and integration into supply chains in order to gain the full benefits offered by trade facilitation measures.

5. Stakeholder Analysis

This section identifies the interest,¹⁸ impact,¹⁹ influence²⁰ and importance²¹ of relevant stakeholders in enabling the poor and microenterprises to gain greater benefits from trade

¹⁶ Thailand's village funds are the microcredit scheme initiated by former Prime Minister Thaksin Shinawatra. The Thai Women Empowerment Fund is a new microcredit scheme initiated by Prime Minister Yingluck Shinawatra to promote financial access for women. For details of savings groups, see footnote 12.

¹⁷ This confirms the finding by Townsend (2011) with regard to the "Million Baht per Village" project, which is seen as having a major impact on short-term credit and consumption while causing deterioration in overall asset growth.

¹⁸ The perceived level of interest/eagerness (i.e., ranging from commitment to the status quo to openness to change).

facilitation measures. The relevant stakeholders comprise provincial government agencies, provincial developers, chambers of commerce, and formal, semi-formal and informal microfinance institutions, large and medium-sized enterprises, microenterprises and local communities.

5.1. Provincial government agencies

The most important provincial government agencies responsible for poverty reduction in the provinces are the Department of Community Development and provincial developers. They are responsible for rising standard of livings and eradicating poverty of local communities. To do so, they promote occupations of local communities via skill training and market seeking for local products. They also give training on financial disciplines and financial literacy via many programmes such as coordinating the establishment of saving groups, creating sufficiency economy villages. Other relevant government agencies, even though having minor roles on poverty reduction, are District Highway Offices,²² Office of Customs and Immigration as well as Custom Quarantine (ICQ) units at the borders,²³ and Provincial Offices of Commercial Affairs.²⁴

The provincial government agencies, especially the Department of Community Development, and provincial developers, have strong interest in efforts to achieve poverty reduction. They bridge the gap between the central Government and local communities. The Department of Community Development and provincial developers are directly responsible for the promotion of community occupation opportunities as well as helping to establish village funds and saving groups that provide financial access for the poor and local communities. If the provincial government agencies have strong social linkages with local communities, it is easier to achieve the central plan for poverty reduction.

According to the interviews, most of the inhabitants of local communities are well-educated and want to promote the well-being of their communities. Their concern about the target of poverty reduction is policy consistency in the central Government. The interviews revealed that the central Government's policies and projects had altered several times, especially

¹⁹ The degree of impact that the projects/initiatives will have on each stakeholder.

²⁰ The influence of a stakeholder is measured by how important that stakeholder is to the success of the initiatives.

²¹ The importance of a stakeholder to the formulation and implementation of initiatives, i.e., the power a stakeholder has to facilitate or impede design and implementation of policy reform.

²² These offices are responsible for the formulation and implementation of trade facilitation measures related to their provinces.

²³ These units are responsible for border crossing and customs procedures.

²⁴ These offices are responsible for (a) the promotion of commercial activities and the economies of provinces, and (b) supporting and facilitating provincial enterprises in terms of trade, investment and the utilization of commercial privilege rights.

when there were changes of ministers or in the Cabinet. A lack of policy consistency makes it difficult for provincial developers to achieve poverty reduction.²⁵

Poverty reduction and the greater involvement of local communities in utilizing trade facilitation measures to promote their well-being are seen as important by the Department of Community Development and provincial developers, but not by many other provincial government agencies. The example of land expropriation in Baan Hom communities indicates that some government agencies accord a low priority to communities' well-being as such action is often executed without either proper compensation and/or a relocation plan for the communities until a Member of Parliament (MP) intervenes.

5.2. Members of Parliament

An MP can communicate the problems, needs and interests of local communities to the Parliament and Government quickly. If MPs become involved closely with communities in their constituencies, and have high bargaining power, they can be very influential in achieving results. They form a "short-cut" between the central Government and local communities.²⁶ In principle, MPs should have a strong interest in the goal of poverty reduction and the improvement of community well-being since they need to maximize votes. However, in practice, that interest varies depending upon personal attitudes.

The priority that MPs place on poverty reduction and the involvement of the poor in the utilization of trade facilitation measures is varied. Some MPs place a high priority on this goal and bring about many important projects with that objective in mind. Nakhon Phanom province is a good example of the strong political side that has resulted in the implementation of several trade facilitation and infrastructure initiatives such as the third Thai-Lao Friendship Bridge, the Nakhon Phanom provincial airport, a distribution centre and product exhibition centre, Nakhon Phanom University, and the promotion of the Nakhon Phanom regional centre hospital.

5.3. Microfinance institutions

As mentioned above, both Mukdahan and Nakhon Phanom provinces have formal, semi-formal or informal microfinance institutions.

²⁵ One example is the implementation of the debt moratorium project, which obstructed the long-term training of farmers and other villagers in financial disciplines.

²⁶ The Member of Parliament who pursued the process of compensation and relocation for the villagers in Baan Hom whose land was expropriated shows the influence that such stakeholders can wield.

The formal microfinance institutions, GSB and BAAC also have other roles so they cannot focus only on microfinance activities. In fact, GSB has a relatively low level of interest in microfinancing due to insufficient personnel and the need to concentrate on other areas such as mortgage loans for those with higher income than people requiring microcredit. Because BAAC provides financing mainly for farmers with the propriety land rights, truly poor farmers are not always able to access BAAC services.

The semi-formal and informal institutions provide better access for the poor in local communities. However, because most of the saving groups in the two provinces are not as strong as similar ones in other regions of Thailand, they do not always have enough capital to provide financing needed by their members for business expansion or other investment purposes. They can only provide loans in emergencies or for minor consumption requirements.

Conversely, the strong saving groups have no interest in undertaking lending activities as their main objectives are to promote community savings and follow the philosophy of a sufficiency economy. Therefore, only village funds are available as a source of microcredit. However, village funds are policy-driven institutions. If any village fund committee decides not to depend on external finances, its ability to provide credit will be limited.

Since a lack of, or limited access to, financing remain a main obstacle to the poor and microenterprises to fully benefiting from trade facilitation measures, microfinance institutions have a very influential role to play in achieving poverty reduction.

5.4. Private sector

The relevant private sector agencies are provincial chambers of commerce and microenterprises. The objective of provincial chambers of commerce is to promote trade as well as agricultural, industrial and investment activities in the provinces. They provide economic and business information as well as business assistance and knowledge, and technology transfers to their members. Strong provincial chambers of commerce such as the one in Mukdahan can help microenterprises to improve their businesses and benefit from trade facilitation measures through: (a) the provision of advice on business opportunities and market trends; (b) assistance with exporting and trading processes; (c) business matching; and (d) organizing visits by microenterprises to business road shows in neighbouring countries.

Microenterprises are key stakeholders in the effort to successfully gain benefits from trade facilitation measures. The realized benefits vary. Some microenterprises seek benefits from

trade facilitation measures with regard to matching their products or services with the needs of new consumers. Others see the opportunities but lack the necessary financing for expanding, their businesses. Many microenterprises lack management and marketing skills, which prohibits them from taking advantage of the benefits of trade facilitation measures. A few microenterprises, such as retail services, experience a negative impact as trade facilitation can destroy their business opportunities.

Provincial chambers of commerce and microenterprises have a strong interest in trade facilitation measures as they regard such measures as a gateway to new markets and customers and a way of creating profitable business opportunities.

The priority placed by provincial chambers of commerce on using trade facilitation measures for poverty reduction varies. In Mukdahan province, the private sector is strong and well-connected, so the chamber of commerce has been able to initiate several projects to promote trade facilitation initiatives that benefit microenterprises.²⁷ However, because the private sector in Nakhon Phanom relatively weaker, the chamber of commerce has given a lower priority to such objectives. In addition, the chamber relies on assistance from the public sector in promoting microenterprise involvement in the usage of trade facilitation measures rather than initiate projects on its own.

Microenterprises place strong importance on utilizing trade facilitation measures for their businesses, and many regard such measures as great opportunities for business expansion and investment.

The private sector is a very influential factor in the successful use of trade facilitation measures for poverty reduction. The chambers of commerce can provide relevant information about new demands, market trends, trade and export processes, and financial and management knowledge as support for microenterprises in establishing or expanding business.

Microenterprises are also the key to the success of trade facilitation in achieving poverty reduction. If microenterprises have sufficient capacity and determination to seize opportunities as they arise, they are more likely to improve their business status via the utilization of trade facilitation measures.

5.5. Local communities

²⁷ Some example projects are the road shows of local products in neighbouring countries, business matching as well as helping microenterprises with capacity-building and adjusting production to meet new demands.

Local communities are the stakeholders most affected by the implementation of trade facilitation measures, both positively and negatively. Local communities pay great attention to trade facilitation initiatives since they may be able to use the measures for their occupation opportunities.²⁸ In addition, trade facilitation measures may sometimes lead to a change in their way of life and social structure. Some can even lose their homes and plantations due to land expropriation. However, the problems facing local communities is a lack of awareness of both the existence of the initiatives and how those initiatives can affect them or provide them with opportunities.

The communities surrounding the areas where the measures are implemented place greater importance on the initiatives, as they are likely to be affected the most. Although local communities experience the greatest impact from trade facilitation measures, they are unable to influence any projects concerning the utilization of trade facilitation measures for poverty reduction. They are the recipients of ineffective one-way communication from the Government, and thus lack the opportunity to express their opinions regarding policy formulation. At times, policies are formulated without consulting the local communities, resulting in a negative impact on them.²⁹

5.6. Summary

Since the two provinces have different interests with regard to the utilization of trade facilitation for poverty reduction, the influence, importance and interest of each category of stakeholder is shown in table 3. Table 3 shows that almost all stakeholders in Mukdahan province are very interested in utilization of trade facilitation measures for poverty reduction. Table 4 summarizes the influence and importance of each stakeholder in Mukdahan.

Table 3. Stakeholder influence in trade facilitation utilization for poverty reduction in Mukdahan and Nakhon Phanom provinces

Stakeholder	Influence		Importance		Interest	
	Power to facilitate or impede		Actual priority given to stakeholder needs		Actual commitment to change	
	Mukdahan	Nakhon Phanom	Mukdahan	Nakhon Phanom	Mukdahan	Nakhon Phanom

²⁸ A good example is that of villagers who started street stalls selling food and groceries after the opening of the Thai-Lao Friendship Bridges resulted in a steadily rising number of visitors.

²⁹ One classic example is the distribution centre and product exhibition centre that have been established near the third Thai-Lao Friendship Bridge, and which involved land expropriation from the communities in that area.

Department of Community Development and provincial developers	High	High	High	High	High	High
Other provincial government agencies	High	High	Low	Low	Low	Low
Member of Parliament	Low	High	Low	High	Medium	High
Microfinance institutions	High	High	Low	Low	Low	Low
Provincial chambers of commerce	High	High	High	Low	High	Medium
Microenterprises	Medium	Medium	High	High	High	High
Local communities	Low	Low	High	High	High	High

Table 4. Levels of influence and importance in utilizing trade facilitation measures for poverty reduction in Mukdahan province

Level of importance	High influence	Low influence
High importance	Department of Community Development and provincial developers, provincial chamber of commerce, microenterprises	Local communities
Low importance	Other provincial government agencies, microfinance institutions	Member of Parliament

The most interesting issue highlighted by the influence-importance matrix in Mukdahan province is that while microfinance institutions are very influential in the utilization of trade facilitation measures for poverty reduction, they still give it low priority in terms of financing. This problem prevents the full involvement of the poor and microenterprises in improving their economic status through the utilization of trade facilitation measures.

The difference in the stakeholder analysis of Mukdahan and Nakhon Phanom provinces comes from the roles of the respective MPs and provincial chambers of commerce. While Mukdahan province has a strong private sector, Nakhon Phanom benefits from solid political influence.

The influence and importance of each stakeholder in Nakhon Phanom is summarized in table 5.

Table 5. Influence and importance in the utilization of trade facilitation measures for poverty reduction in Nakhon Phanom province

Level of importance	High influence	Low influence
High importance	Department of Community Development and provincial developers, Members of Parliament, microenterprises	Local communities
Low importance	Other provincial government agencies, provincial chamber of commerce and microfinance institutions,	-

While the problem regarding the microfinancing system in Nakhon Phanom province is similar to that in Mukdahan province, a relatively weak private sector and the reliance on the public sector prevent microenterprises from gaining benefits from trade facilitation measures.

6. Development of microfinance products to support trade facilitation measures

This section first summarizes the problems regarding access to financial services by the poor and microenterprises in both provinces. It then proposes ways to develop microfinance institutions and products that promote better access to financial services so that the poor and microenterprises can achieve greater benefits from trade facilitation measures.

6.1. Problems regarding access by the poor and microenterprises to financial services

The limited access that the poor and microenterprises have to microfinance services in the two provinces stems from the following factors:

- (a) Due to high non-performing loans of microcredit for group lending, microfinance institutions decided to reduce the amount of such loans, and now require collateral or guarantors instead. The failure of group lending comes from the fact that the GSB used this lending method in the urban areas to finance group businesses such as fresh food markets. However, Kamolshotiros (2011) found that social linkages among such people were weak. As a result, social sanction has failed to be a successful enforcement mechanism to ensure debt repayments;
- (b) Given that the formal microfinance institutions now require collateral or guarantors as one of the conditions for granting loans, it is difficult for the poor and microenterprises to obtain credit from those institutions. In the case of BAAC, the loan condition is that the farmers must have the propriety land rights.

Therefore, microcredit from formal microfinance institutions cannot reach the very poor and microenterprises;

- (c) Many poor people and microenterprises feel that the process and required documentation involved in seeking credit are complicated. Some microenterprises do not have a trade licence, yet such a licence is required as evidence when requesting a loan;
- (d) The formal microfinance institutions lack adequate personnel who are directly responsible for microfinancing services. However, such personnel are important for ensuring strong linkages with clients and for making frequent visits to clients' workplaces. Strong links between the institutions and their clients is crucial to promoting financial discipline among clients;
- (e) Savings groups in the two provinces are relatively weak. The interviews with GSB in Nakhon Phanom revealed that most of the loans given to savings groups under the "community development loans" project had become non-performing loans. The reason for weak saving groups may be the result of the social structure in the north-eastern region where most working-age people leave their hometowns to work in other urban areas. This contrasts strongly with the stronger social bonds among people in the northern or southern regions of Thailand, most of whom work in their hometowns, mainly in agricultural sector. Because of the weakness among north-eastern savings groups they cannot act as a supporting mechanism in providing microfinancing services to local communities;
- (f) The loan amounts granted to the poor and microenterprises, either from village funds or formal microfinance institutions, are mostly too little to meet their needs;
- (g) Microfinance institutions fail to verify whether the loans are used for the stated purpose. Many loans that are requested for business start-ups or expansion are actually used for consumption purposes;
- (h) There are no specialized financial institutions that offer microfinancing services in Thailand. GSB provides various services, including savings stimulation, normal commercial bank services, policy-driven projects and microfinancing services. BAAC serves all farmers and agricultural workers but with the condition that they hold propriety land rights which excludes the very poor farmers. Because these financial institutions are involved in providing a wide range of services, they do not concentrate on microfinancing activities, which require more effort and yield fewer profits.

6.2. Suggestions for improving and developing in microfinance products and services

As mentioned in Section D, the main benefits for the poor and microenterprises from job creation come from agricultural production, services and local products. This subsection contains suggestions for developing and improving microfinance products and services in order to help the poor and microenterprises gain access sources of financing and benefit more from trade facilitation measures. The authors have followed the system of Brand (1998) and Cheewatrakoolpong and others (2011) who divided microfinance development into three areas, i.e., microfinance products, microfinancing processes and microfinancing strategies. The suggestions are also separated according to whether they are short term or long term.

(a) Short-term suggestions

The short-term suggestions are aimed at improving existing microfinance products and services or developing new products or services through existing microfinance institutions.

(i) Microfinancing products

Group-lending conditions: One of the major obstacles facing the provision of microcredit by microfinance institutions is the failure of the group-lending system. Therefore, the answer to this problem would be better to alter the group-lending conditions to better match the social structure of the local communities. The current GSB requirement is that the people in the group must be vendors in the same market. However, Hermes and Lensink (2001) indicated that groups of people living in the same community have stronger social bonds. As a result, it would be more helpful to require that people forming such a group should be living in the same community. Also, in the case of urban areas, in which social bonds are weaker, Bangladesh's Savesafe method that gives personal loans might be a better option.

Required documentation: Some microenterprise cannot obtain microcredit due to their inability to meet documentation requirement from financial institutions. For microenterprises, it may help facilitate the process of obtaining microcredit if the institutions relax the documentation requirements and instead review their workplace, production or service activities and income statements. This practice is similar to the case of the GSB People's Bank Project in which GSB credit officers inspect the vendors' stalls before granting credit.

Save-first, borrow-later condition: Recently, GSB changed its minimum three-month, save-first, borrow-later condition from three months to just having a savings account with the bank. However, the relaxation of this condition does not enable the poor to easily access

credit since, in practice, GSB branches find granting credit to the poor to be a tough decision due to past non-performing loans. It would be better to reinstate this condition to make sure that the poor or microenterprises follow good financial discipline before granting loans. Also, after successfully passing the save-first, borrow-later condition, the credit-granting process might be made faster since GSB is already aware of the historical financial background of its clients. The loan amount could also be increased according to the number of prior months that each client is willing to save. To sum up, instead of relaxing the conditions regarding clients' financial discipline, it would be better to increase flexibility in terms of guarantors, collateral and loan amount as well as ensure a timely loan granting process.

Leasing for farming or occupational equipment: Since many of the poor and microenterprises do not have land or real estate that can be used as collateral, leasing farming or occupational equipment such as pushcarts, rickshaws, containers or trolleys could help them to access financing more easily. In some countries, livestock leasing is also acceptable.

Progressive loans and flexible repayment periods for long-term projects: Some types of plantation farming involve a lengthy growing period before they can provide farmers with income. For example, rubber requires more than five years of growing before the rubber-tapping process can start. Therefore, plantation farmers might not have ability to repay their debts during that initial growth period. Despite the fact that such plantations often yield high profits, this prevents poor farmers from accessing required microcredit. Therefore, microfinance institutions could adjust the conditions of loans intended for investment in rubber or other long-term plantation projects. For example, for a rubber plantation a progressive loan could be granted according to the stage of tree maturity, with debt repayment set to begin when the farmers can start to tap rubber. During the first five years, the farmers could be required to only pay interest.

(ii) *Microfinancing process and strategies*

Increase the number of officers directly responsible for microfinancing services: According to the interviews, a lack of personnel is one main reason for the low coverage of microfinance services. Personnel are needed for visiting the work places of poor clients and microenterprises to collect their savings and debt repayments, and to observe their businesses. However, the limited number of personnel per branch impedes the expansion of microfinance services coverage. If the institutions have enough staff to provide microfinance services, the poor and microenterprises could be visited more frequently. This would promote financial discipline among the clients and facilitate microcredit granting process.

Also, the institutions would be able to expand microfinance services to areas that are difficult to access.

Establish a specific micro-financing unit within financial institutions: Apart from the lack of personnel, each branch of a financial institution has to accomplish a range of objectives. As a result, they cannot focus specifically on microfinance services.³⁰ The establishment of special units responsible for microfinancing services could be a good strategy for accomplishing better services and coverage.

Cooperation with community groups for microfinancing services: Since financial institutions have symmetrically detailed information regarding the income status, financial discipline and dependency of the poor and microenterprises, collateral and guarantors for loans are needed. If a better mechanism is put in place to evaluate such information, the need for collateral and guarantors may not be necessary. Savings groups, village funds and occupational groups have closer linkages with people in their communities. As a result, they have comprehensive information regarding the local inhabitants and are therefore in a better position to assess the credit worthiness of the poor and microenterprises in their communities. In regions with strong community groups, such as Ayutthaya and Trat provinces, both BAAC and GSB use the groups as a channel for providing savings and lending services to villagers. However, such cooperation is not apparent in Mukdahan and Nakhon Phanom provinces. The financial institutions should stimulate and strengthen such cooperation within community groups, starting with the provision of more detailed financial and management knowledge to group committees and members. The groups will then be able to bridge the gap between the institutions and communities, and help the poor and microenterprises to gain better access to financial assistance.

(b) *Long-term suggestions*

(i) *Development of strong savings groups or community groups within Mukdahan and Nakhon Phanom provinces.*

The previous subsection considered the possibility of providing microfinance services via community groups. The groups can be good intermediaries if they are strong enough. However, most community groups in Mukdahan and Nakhon Phanom provinces do not have sufficient capability to provide such services. The differences between the groups in these two provinces and those in other regions of Thailand arise from the culture of north-eastern people who tend to leave hometown and work in urban areas. This results in weaker social bonds within north-eastern communities. However, since the implementation of trade

³⁰ Bank Rakyat Indonesia is a good example of a financial institution that has established a special microfinance unit, called BRI Village Units (*Unit Desa*) and becomes successful in microfinance activities.

facilitation measures is providing more occupational opportunities in the two provinces, it should be possible to develop strong community groups in terms of technology, management skills and financial knowledge in the future with assistance from provincial developers, the offices of provincial development, and the formal financial institutions.

Establishment of integrated credit ratings for savings and community groups: The failure of the community development loan project in the two provinces is the result of the financial institutions' inability to assess the quality of savings groups. The credit rating provided by the Department of Community Development contains inadequate information about financial status and behaviour. As a result, the establishment of an integrated credit rating for savings and community groups could help formal financial institutions to utilize the groups as their intermediaries.

Establishment of specialized microfinance institutions: Thailand does not have any financial institution that specializes in microfinance services, and none of the existing institutions focus specifically on microfinance. Therefore, the establishment of an institution similar to Bangladesh's Grameen Bank or India's National Bank for Agricultural and Rural Development could be of great help in developing the microfinance system in Thailand.

Coordination with the offices of provincial development, chambers of commerce and academic centres: Coordination in promoting related skills and knowledge is needed, as such action would be of considerable assistance in efforts to achieve poverty reduction.

Conclusion

The current study reveals that there are many opportunities for the poor and microenterprises to benefit from trade facilitation measures in Mukdahan and Nakhon Phanom provinces, especially in the agricultural, services and investment sectors. There is growing demand in Viet Nam and China for agricultural products, especially organic rice, tapioca, rubber, sugar and fresh fruit. Farmers and agricultural employees in the two provinces can benefit more now from trade facilitation measures by harvesting and exporting such agricultural products to Viet Nam and China via the improved road infrastructure. Many products such as fresh fruit could not be exported in the past since the poor infrastructure led to lengthy transportation times that resulted in fruit going rotten and the quality of other products deteriorating during transportation.

In the service sector, jobs and business opportunities have increased, especially in hotels, restaurants and other tourism-related services, logistics, educational services and health-care services. Retail and wholesale businesses have experienced mixed results, but there has been some increase in opportunities in certain enterprises such as packaging and container services, automotive parts and electrical appliances.

Opportunities have also increased in businesses related to exporting local and OTOP products such as silk, fermented mud cloth, indigo dye cloth and wicker baskets to Viet Nam and China.

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.

The survey revealed that limited access among the poor and microenterprises to financial services in the two provinces was the main obstacle to benefiting from trade facilitation measures. Microenterprises face difficulties in obtaining loans from financial institutions due to a lack of required collateral or guarantors, the complication documentation requirements, a lack of commercial registration, and a mismatch between loan amounts and maturity dates granted by financial institutions and needed by microenterprises. As a result,

microenterprises depend more on equity to run their businesses. Poor local workers, vendors, OTOP groups and farmers without land face even more problems concerning financial access as it is very difficult for them to find collateral or guarantors.

The stakeholder analysis explores the fact that microfinance institutions in the two provinces do not focus on microcredit activities. Some important stakeholders, such as provincial government agencies, in addition to the offices of provincial development and some chambers of commerce, lack interest in promoting the involvement of the poor and microenterprises in trade facilitation measures for poverty reduction.

Local communities are the stakeholders most affected by the implementation of trade facilitation measures. On the positive side, they experience more job opportunities, higher values of their agricultural and other local products, better transportation between the provinces and neighbouring countries, and increased availability of low-skilled labour. In contrast, some local communities have experienced negative impacts from trade facilitation measures, such as land expropriation and speculation, gambling, drug dealing, prostitution and other crimes, overburdening of for health care and education services, and low increases in wage rates due to rapid increases in the availability of foreign workers.

The stakeholder analysis of both provinces reveals several interesting issues, which are summarized below:

- (a) There are no financial institutions, either formal or informal, that provide sufficient assistance in meeting the financial needs of the poor and local communities in utilizing trade facilitation measures for their occupational activities, investments and welfare;
- (b) Apart from the offices of provincial development and provincial developers, other provincial government agencies do not get involved with initiatives that encourage the poor and microenterprises to use trade facilitation measures for poverty reduction. Policies of other government agencies rarely take into account the needs and interests of local communities and microenterprises;
- (c) The involvement of provincial chambers of commerce as well as large and medium-sized enterprises is an important factor in helping microenterprises to enter value chains or benefit from trade facilitation measures. Chambers and commercial enterprises can provide guidelines regarding economic and marketing knowledge, market trends, short cuts to initiating trade and export activities in neighbouring countries, accessing financial services, privilege rights, tax exemption, tariff privileges, and other legal and regulation issues;

(d) The provinces with active and influential Members of Parliament can benefit from their role as a bridge between the central/provincial governments and local communities;

(e) Local communities and microenterprises are important stakeholders but have relatively lower influence. However, government agencies and other related parties need to consult them more in order to ensure effective policy formulation and implementation regarding the utilization of trade facilitation measures for poverty reduction.

This study offers suggestions for improving and developing microfinance products and services in order to help the poor and microenterprises access credits more easily. The suggestions for the short term are to revise the group-lending conditions, bring back the save-first, borrow-later condition, make the requirements regarding documentation more practical, implement leasing for farm and occupational equipment, provide progressive loan and flexible repayment periods for long-term projects such as rubber plantations, increase the number of personnel directly responsible for microfinancing services, set up specific microfinance units within financial institutions, and expand cooperation with community groups in providing lending and saving services.

The long-term suggestions concern the development of strong savings or local community groups within the two provinces, the establishment of integrated credit rating for such groups, and the establishment of specialized microfinance institutions.

In addition, the improvement of the microfinancing system and the development of microfinance products mentioned above will help the poor and microenterprises to gain better access to financial services, which, in turn, will increase the opportunities for them to benefit from trade facilitation measures.

The survey interviews clearly indicated that better financial access alone cannot eradicate poverty or help the poor and microenterprises to benefit from trade facilitation measures. They need additional skills and knowledge in areas such as management, accounting, finance and economics, marketing, product design, regulations and privilege rights for trading, investing and exporting activities, and other related rules. Therefore, microfinance institutions should cooperate with the offices of provincial development, provincial chambers of commerce and other academic institutions such as vocational schools or universities in order to provide these necessary skills and knowledge to the poor and microenterprises. The community groups could also be used as a channel for knowledge transfer to villagers.

The comparison between Mukdahan and Nakhon Phanom provinces reveals that the support provided by the provincial chambers of commerce and larger enterprises is one of the key factors in enabling the poor and microenterprises to successfully obtain benefits from trade facilitation measures. This stems from the fact that the provincial chambers of commerce can provide the necessary knowledge, skills and information such as international trade procedures, procedures for obtaining loans from financial institutions, the marketing and regulatory environments in neighbouring countries, and the differences in consumer demands in the markets of those countries.

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Annex 1: List of interviewed agencies and individuals

Mukdahan province

Bank for Agriculture and Agricultural Cooperatives (BAAC), Muang district branch.

Government Savings Bank (GSB), Muang district branch.

Committee of the Village Fund and Savings Group in Soon Mai village, Muang district.

Mukdahan Chamber of Commerce.

Nine villagers (five farmers, two labourers and two service sector employees).

Seven microenterprises in border communities (retail and repair shops, tour guides, restaurants, automobile parts, wicker basket production and mud fermented cloth).

Office of Provincial Community Development and provincial developers in Mukdahan province (two officers and two developers).

Lao workers in a Thai restaurant.

Thai restaurant owner in Savannaket, the Lao People's Democratic Republic.

The owner of ODOP in Savannaket, the Lao People's Democratic Republic.

Nakhon Phanom province

Bank for Agriculture and Agricultural Cooperatives (BAAC), Muang district branch.

Government Savings Bank (GSB), Muang district branch.

Nakhon Phanom Chamber of Commerce.

Fifteen villagers in border communities, Baan Hom, Muang district.

Eight microenterprises in local communities (construction, construction materials, automotive parts, insurance, street food shop, electrical appliances and two general retail shops).

Office of Community Development and provincial developers in Nakhon Phanom province (one officer and two developers).

The Member of Parliament for Nakhon Phanom.

Annex 2: Interview questions

Microfinance Institutions

1. Current financial services to the poor and microenterprises.
2. Variety of products, distribution channels and strategies for microfinancing.
3. Awareness of trade facilitation measures in the area.
4. Realization of employment and business opportunities provided by trade facilitation measures.
5. Responses to employment and business opportunities provided by trade facilitation measures:
 - (a) A change in microfinance loan amounts;
 - (b) A change in the number of microfinance customers who come to seek MFI services;
 - (c) A change in the number of microfinance applications that receive approval;
 - (d) A change in maturity and loan conditions of microfinance loans to match the needs of new business and employment opportunities;
 - (e) A change in the financial discipline of microfinance customers;
 - (f) Any new microfinancing products that specifically target the opportunities from trade facilitation measures.
6. Concerns regarding socio-economic impacts on the poor that might affect their financial discipline or status (e.g., the easy access to casino in Savannakhet in the case of Mukdahan).

The poor and microenterprises

1. Current occupation, educational level, income, family members, expenses.
2. Awareness of trade facilitation measures.
3. Realization of employment and business opportunities provided by trade facilitation measures.
4. Expectation and realization from trade facilitation measures in terms of employment and occupation opportunities, poverty reduction and quality of life.
5. A change or expected change in occupation or employment pattern after implementation of trade facilitation measures.
6. Ability to gain employment or benefit from occupational opportunities provided by trade facilitation measures.
7. Obstacles that prevent achieving the full benefits from trade facilitation measures:
 - (a) Skills;
 - (b) Lack of funding;
 - (c) Competition from other areas;
 - (d) Other reasons.
8. Current access to microfinance institutions' services.
9. Importance of microfinancing with regard to gaining greater benefit from trade facilitation measures.
10. Needs for new or improvement of current microfinancing products offered by MFIs to enable them to benefit fully from trade facilitation measures:

- (a) Conditions such as repayment amounts, interest rates;
 - (b) Loan amount;
 - (c) Maturity dates;
 - (d) Collateral and guarantee conditions such as joint liability group;
 - (e) Flexibility of loans;
 - (f) Specific products targeting the opportunities provided by trade facilitation measures;
 - (g) Distribution channels;
 - (h) Processing;
 - (i) Other needs or concerns.
11. The negative impacts of, or concerns arising from trade facilitation measures.

Government agencies

1. Trade facilitation measures of both the Greater Mekong Subregion and the Government of Thailand.
2. Contribution expectations and realization from the trade facilitation measures on poverty reduction and their realization.
3. Change or expected change in the economic situation, employment pattern and business opportunities following implementation of trade facilitation measures.
7. Realization of employment and business opportunities provided by trade facilitation measures.
4. Assistance from government agencies in helping the poor and microenterprises to benefit from trade facilitation measures in terms of:
 - (a) Capacity-building and training;
 - (b) Thai Women's Empowerment fund
 - (c) Information sharing;
 - (d) Funding;
 - (e) Others.
5. Government plans for supporting the implementation of trade facilitation measures, especially in terms of poverty reduction.
6. The negative impacts (e.g., human trafficking, drug dealing and other crimes, foreign intrusion, gambling etc.) of trade facilitation measures and the ways in which the government agencies will lessen such impacts.
7. Need for, and ease of access to funding among the poor and microenterprises in order to benefit from trade facilitation measures.
8. The role of the Government of Thailand in helping the poor to gain better access to microfinancing.

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