Session 2: Case Study

**AGROCORRIDORS**

**CASE STUDY FOR DISCUSSION [IN PLENARY OR BREAK-OUT GROUPS]**

**MULTI-COUNTRY REGIONAL CORRIDORS: THE CASE OF THE GREATER MEKONG SUBREGION ECONOMIC COOPERATION PROGRAMME**

***Background***

The Greater Mekong Subregion (GMS) corridor is a regional economic cooperation initiative launched in 1992 by the Asian Development Bank (ADB), after two years of consultations with member countries to identify areas of collaboration for the programme.

From 1994 to 1997, ADB undertook a number of detailed sector studies and feasibility studies for prioritized infrastructure components. Infrastructure projects began in 1998 through 2001. The 1997 Asian financial crisis served as a turning-point for the initiative, strengthening commitment from member countries to develop the subregion as a centre for economic growth.

The corridor spans six countries: Cambodia, Lao PDR, Myanmar, China (Yunnan province and Guangxi Zhuang Autonomous Region), Thailand and Viet Nam (ADB, 2014). It covers 2.6 million km2 and a combined population of 326 million (ADB, 2012b). The region encompasses ancient trade routes established more than 1 200 years ago by Chinese tea merchants along the Mekong River delta that over time have been constrained by deteriorating and lack of transport infrastructure (ADB, 2014).

Over the past 20 years, GMS countries have collaborated to strengthen regional infrastructure and trade linkages in an effort to reduce poverty and strengthen the region’s economy.

The GMS programme targets development along nine corridors incorporating road, rail and waterways. Of these, three are considered the primary corridors in the region:

* *North-South Economic Corridor*, with its three subcorridors: Kunming-Bangkok via the Lao PDR or Myanmar; Kunming-Ha Noi-Hai Phong; and Nanning-Ha Noi. The corridor is virtually complete, except for a bridge between the Lao PDR and Thailand, which is under construction.
* *East-West Economic Corridor*, the only direct and continuous land route across mainland Southeast Asia.
* *Southern Economic Corridor*, which runs through southern Thailand, Cambodia and southern Viet Nam (linking Bangkok to Phnom Penh, and then to Ho Chi Minh City).

GMS provides a forum to prioritize sectors and target investments accordingly, while recognizing that the private sector is ultimately the engine for growth. Agriculture, inclusive of production, post-harvest handling and agroprocessing, became a prioritized economic sector during the 10th GMS Ministerial Meeting in Yangon province, China in 2001 (ADB, 2012a). In 2007, the Working Group on Agriculture endorsed ADB’s flagship Core Agriculture Support Program (CASP), which aims to expand cross-border trade in food products. CASP Phase II (2011–2015) gave emphasis to improving subregion competitiveness for agro-industry and ensuring that growth is climate resilient (ADB, 2011).

***Hard and soft interventions***

GMS gave priority to infrastructural projects, and particularly to road networks improvement, spending US$10 billion (by the end of 2012), corresponding to 63 percent of the total budget of the corridor programme. To promote agriculture, the programme envisaged the development of agricultural collection points, markets and storage infrastructure. As part of its soft investments, GMS fostered regional competitiveness through the promotion of pro-poor agricultural value chains, agro-based clusters and Special Economic Zones, and cross-border contract farming (Gálvez Nogales, 2014).

However, low institutional capacity for cross-border trade of agricultural and agro-industrial products remains a major bottleneck. Recognizing the need to supplement the region’s physical connectivity with improved policy environments and institutional capacity for trade and transport facilitation (Srivastava and Kumar, 2012), GMS members have endorsed further study and technical assistance projects tailored to the individual needs of each country. The GMS Cross‑Border Transport Agreement and the GMS Plan of Action for Trade and Trade Facilitation, 2012 are two examples of regional collaboration along these lines (Srivastava and Kumar, 2012). The GMS agriculture-focused initiatives also emphasized institutional capacity building for growth in cross-border agricultural trade and integration. Country-led development programmes are addressing growth and economic disparities among member countries in the spirit of shared GMS objectives.

***Benefits and constraints***

GMS is one of the fastest growing regions in the world, although transformation of the agriculture sector into a commercial agro-industrial engine for growth has not yet taken place in GMS countries, apart from Thailand. The sector remains dominated by smallholder farmers and SMEs that are not well integrated in regional or global supply chains and agro-industry faces a number of constraints that limit competitiveness and growth in the sector. They include the following:

* *Supply chain constraints.*Access to quality inputs is often delayed or denied (financially or physically) to producers, thereby constraining their ability to secure high-quality raw materials. Furthermore, agro-industries face logistical challenges in transporting their products. Businesses in Lao PDR and Cambodia complain of limited availability of transport services, because of an aged and small trucking fleet in their countries (ADB, 2012a).
* *Limited access to finance.* Agro-industry in the region faces challenges in accessing both working and investment capital. The challenge is more acute for businesses in less developed member countries. Cambodian food businesses, for example, feel that their poor export quality and unreliable raw material supply are exacerbated by the lack of investment capital to expand milling facilities and modernize equipment, and by the lack of working capital to ensure a reliable supply of raw materials (ADB, 2012a).
* *Trade-related policies and procedures.* Businesses complain of complicated and time-consuming customs formalities, fees and inspections. Most GMS member countries have limited institutional capacity (including human capacity) to undertake specialized sanitary and phytosanitary verification procedures (ADB, 2012a). Customs delays add costs to doing business and ultimately impact the competitiveness of the region. Specialized technical assistance and investment in physical infrastructure (e.g. laboratories and quarantine facilities) are needed to improve these capacities.
* *Poor business-enabling environment.* Among the corridor countries, Cambodia, Lao PDR and Myanmar perform poorly in the World Bank’s Doing Business rankings, with China and Viet Nam performing significantly better. Thailand performs well, reflecting its agribusiness leadership in the region. Standards of public and corporate governance within the region remain low by international standards (ADB, 2011). Poor enabling environments can be deterrents to private investment, particularly foreign direct investment (FDI).

Despite these weaknesses, the cornerstone of GMS regional cooperation has improved trade facilitation through upgrades to the transportation network, connectivity between major economic centres, and harmonization and streamlining of customs procedures to improve the movement of goods in and out of countries. Efforts over the past 20 years have resulted in growth in intraregional trade by 25.5 percent between 2000 and 2007 (ADB, 2011). However, growth in intraregional agricultural trade has underperformed with regard to other sectors, and the region is seeing little private agro-industrial investment along corridor routes (ADB, 2011). Trade in the region consists primarily of manufactured products, with the greatest growth in volumes of trade consisting of imports of manufactured products from China. Thailand and Viet Nam are the other countries with a large share of trade flows within the GMS region.

Total reported exports have grown for agricultural products such as rice, cassava, prawns, processed fish, poultry products and rubber (ADB, 2012a). With regard to regional trade, the lesser developed GMS countries of Cambodia, Lao PDR and Myanmar essentially export primary products to China, Thailand and Viet Nam. From 2000 to 2009, Thailand’s imports from other GMS5 countries became more oriented towards primary products (from 63 percent in 2000 to 81 percent in 2009), suggesting that Thailand is home to more value-added activities than its neighbours. Viet Nam, too, has succeeded in increasing its value-added sector, changing its exports from 46 percent manufactured products in 2000 to 60 percent in 2009 (Srivastava and Kumar, 2012).

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**QUESTIONS:**

*⌦ GMS gave priority to infrastructure projects. In your opinion, which additional soft interventions could serve to further augment the impact of the corridor?*

*⌦ To address the constraints affecting the agro-industrial sector in the corridor area, what can member countries do at the national level?*

*⌦ In your opinion, why have countries benefited differently from the corridor programme? What can be done to make the results more uniform?*

*⌦ How important is it to set concrete goals for the programme (to improve producer income, market access, jobs creation etc.) and monitor that they are being met?*

*⌦ What other relevant lessons can you draw from this case?*

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