

## Lead Discussant Paper:

# Additional information on issues and challenges related to Cross-Border Contract Farming and implementation of ASEAN-GAP to enhance international competitiveness

**Prospects for human resources development and capacity building for CLMV/GMS  
countries in the context of the ASEAN Economic Community 2015**

**Prepared for the Mekong Forum 2011**

**Khon Kaen, Thailand**

**12-13 July 2011**

by Anthony M. Zola  
Senior Researcher, Mekong Environment and Resources Institute – MERI  
Bangkok, Thailand

## Introduction

1. Governments in Southeast Asia have joined together to organize political-economic, trade, and development groupings to facilitate regionalization mechanisms that capitalize on cross-border comparative advantage and mobilize synergies, while aiming to narrow the development gap among states and reduce poverty and socio-economic disparities in the region. These regional and sub-regional groupings have raised awareness of the potential of collective political-economic action at the global level and drawn attention to mutual benefits possible from regional cooperation.

2. The Association of Southeast Asian Nations (ASEAN),<sup>1</sup> Greater Mekong Subregion (GMS),<sup>2</sup> Brunei Darussalam-Indonesia-Malaysia-Philippines East Asia Growth Area (BIMP-EAGA), Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), and Shanghai Cooperation Organization (SCO) recently have gained credibility among member governments, the business sector, and peoples in the region. At times, the groupings have provided a moderating influence in dealing with contentious regional and sub-regional political-economic issues. They provide forums for discussing issues related to cross-border and regional trade, regional economic and financial cooperation, agricultural development, and natural resources and environmental management. They also have provided an opportunity for dialogue on emerging international agricultural development issues such as cross-border contract farming, food safety, biosafety, sanitary and phytosanitary (SPS) measures, and high priority health and livestock disease situations.

3. In pursuit of economic integration and regional development, ASEAN has created the ASEAN Economic Community (AEC) with four characteristics:

- a single market and production base
- a region of equitable economic development
- a highly competitive economic region
- a region fully integrated into the global economy

4. In the context of the single market production base, emphasis is placed on the integration of five core elements, namely:

- free flow of goods
- free flow of services
- free flow of investment
- freer flow of capital
- free flow of skilled labor

5. In addition, the single market production base includes two important components, namely: (i) the five priority core elements of integration; and, (ii) food, agriculture, and forestry. The Blueprint for the AEC adopted in 2007 by ASEAN leaders consists of 17 core elements and 154 actions with clear targets and timelines.<sup>3</sup>

6. In the context of the AEC, four of the 12 priority sectors for integration endorsed by ASEAN leaders are related to agriculture (marked with \*):

- wood-based products\*
- rubber-based products\*
- electronics
- automotives
- agro-based products\*
- e-ASEAN/ICT
- textiles and apparels
- fisheries\*
- healthcare
- tourism
- logistics
- air travel

---

<sup>1</sup> Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.

<sup>2</sup> Cambodia, Yunnan and Guangxi provinces of the PRC, Lao PDR, Myanmar, Thailand, and Viet Nam.

<sup>3</sup> The Contribution of ADB to the ASEAN Economic Community Blueprint, Mandaluyong City, Philippines: Asian Development Bank, 2009.

## Trade liberalization and macroeconomic implications

7. The ASEAN Free Trade Area (AFTA) that became effective in January 2010 allows trade among most ASEAN countries at a zero tax rate.<sup>4</sup> Given the customary political and economic sensitivity to unhindered flows of food and agricultural products across sub-regional national borders, non-tariff barriers to trade (NTB) have emerged and are being imposed increasingly rigorously. NTBs include SPS measures, science-based technical requirements, labeling, standards, and testing. This outcome is likely to delay further integration since NTBs are not as transparent as tariffs. In addition, the increased number of bilateral trade agreements among ASEAN nations, could result in conflict and confusion in the absence of a common framework.

8. In this macroeconomic context and simultaneously with developments elsewhere in East Asia and globally, several additional factors are emerging that will serve as drivers of change with impacts on cross-border contract farming and prospects for human resources development and capacity building for CLMV/GMS countries, namely:

- **Transport corridors** have been developed particularly in the GMS that facilitate the movement of goods, services, and people throughout the region. Between 2000 and 2007, GMS countries increased imports of fresh produce, perishable and shorter shelf-life products among themselves while increasing exports outside of the GMS.<sup>5</sup> Similar transport corridors are planned for the BIMP-EAGA and IMT-GT.
- **Climate change:** Based on a recent ADB Study on the anticipated impacts of climate change conducted by IFPRI,<sup>6</sup> irrigated rice production in Southeast Asia may decline by some 17 percent, which when combined with the region's high susceptibility to natural disasters have the potential to threaten regional food security.
- **Food safety and agricultural competitiveness:** Several GMS member countries are major exporters of a diversity of high quality food and agricultural products, namely: grains, pulses, beans, tubers, tropical fruits, vegetables, aquaculture, processed meat, coffee, spices, and industrial crops (rubber, palm oil, sugar cane, coconuts). To protect domestic production of these commodities in the politically important farm sector, in the absence of tariffs, importing countries are expected to impose stronger non-tariff barriers to trade, with particular emphasis on biosafety, with significant consequences for cross-border trade and the ability of CLMV countries to access global value chains.
- **Natural resources and biodiversity:** The need for improved management of natural resources is a critical driver of change in the GMS with implications for agro-economic development. Land degradation is a major problem and is becoming more serious; as much as 40 percent of all usable land in Thailand, and up to 33 percent in Viet Nam is degraded.<sup>7</sup> An increasing portion of the remaining forest cover consists of monoculture industrial tree plantations including rubber and exotic species such as Acacia, and Eucalyptus, which are poor hosts for indigenous biodiversity. In addition, the loss of cropland due to rapid urbanization and industrial development is a growing problem. Lower productivity from smaller land holdings is compounded by poor agricultural practices particularly among the poor and most vulnerable rural households and continuing large scale migration away from agriculture and rural areas. Although the GMS does not lack water, inadequate water supply systems restrict water availability.
- **Commercialized intensive agriculture:** The granting of large-scale agricultural land concessions for intensive farming (mega-projects) places additional pressure on natural

---

<sup>4</sup> Until 2015, Cambodia, Lao PDR, Myanmar, and Viet Nam are excluded.

<sup>5</sup> GMS agricultural trade and facilitation study (incomplete draft report), Mandaluyong City, Philippines: Asian Development Bank, August 2009.

<sup>6</sup> Building climate resilience in the agriculture sector of Asia and the Pacific, Mandaluyong City, Philippines: Asian Development Bank, 2009.

<sup>7</sup> Greater Mekong Environment Outlook, 2007. Nairobi: UNEP, 2009; accessed at website: <http://www.rrcap.unep.org/pub/eo/gmeo07/index.cfm>

resources and the environment. Natural landscapes are disturbed by artificial practices such as the permanent removal of natural vegetation, drainage improvement, soil degradation, and application of agricultural chemicals. Current examples of plantation agriculture in the GMS include rubber, oil palm, cassava, coffee, sugar cane, jatropha, and, industrial trees (usually for wood chips, pulp, and paper), most often in Cambodia, Lao PDR, and Myanmar. Some rural communities benefit from plantation agriculture through contract farming that transfers agricultural technology and creates off-farm income in rural areas. The number and size of land concessions being sought in the GMS is expected to rise over the short- and medium-terms, with expanded cultivation of food crops, cereal grains, and biofuel crops to meet global demand and meet food security needs.

## Challenges to cross-border contract farming

9. **Outmoded trade administration:** GMS governments have been identified as significant obstacles to trade. Private sector groups have for at least two decades (since the GMS program began in 1992) expressed their dissatisfaction with customs, immigration, vehicle and product processing, inspections, and paper-intensive clearance procedures. Although the Cross-border Transport Agreement (CBTA), signed by some GMS countries as long ago as 1999, and operational since 2003, the ADB still is reporting in 2010:<sup>8</sup>

- CBTA provisions have not yet been incorporated into national laws and regulations;
- Insufficient ownership of the CBTA by Customs and other GMS government agencies;
- The need for strengthened coordination of the NTFC and Joint Committee for monitoring CBTA implementation;
- The 'network effect' has not been realized due to the limited number of routes and low traffic volume;
- A lack of active participation by the GMS private sector; and,
- The need for significant capacity building for CBTA implementation at central and provincial levels and at the borders.

10. **Non-tariff barriers to trade:** The WTO defines NTBs as obstacles to trade that are set up through formal or informal measures, regulations or practices, and not by tariffs. They obstruct trade since they increase the trading cost or frustrate it completely. Examples are: Sanitary and Phytosanitary (SPS) measures, technical barriers to trade (TBT), price or quantity control measures, among others. There are several groupings of NTBs, including:

- |                                       |                             |
|---------------------------------------|-----------------------------|
| • Price control measures              | • Quality control measures  |
| • Para-tariff measures                | • Finance measures          |
| • Anti-competitive measures           | • Export related measures   |
| • Trade-related investment measures   | • Distribution restrictions |
| • Restriction on post-sales services  | • Subsidies                 |
| • Government procurement restrictions | • Intellectual property     |
|                                       | • Rules of origin           |

11. Member countries of the WTO are obligated to put in place appropriate mechanisms to implement SPS measures. These food safety related measures have upstream linkages to pre- and post-harvest production technology at the farm level, and downstream linkages to traders, transporters, and primary processors. In addition, global food quality standards continue to be strengthened that may constrain trade but that also may stimulate change in international agricultural development.

<sup>8</sup> Implementation of GMS Cross-Border Transport Agreement (CBTA), Yushu Feng, Senior Regional Cooperation Economist, Asian Development Bank, 27 May 2010; website: [cleanairinitiative.org/portal/system/files/presentations/ADB\\_Yushu\\_Feng\\_-\\_CBTA\\_Implementation.pdf](http://cleanairinitiative.org/portal/system/files/presentations/ADB_Yushu_Feng_-_CBTA_Implementation.pdf) ;accessed on 29 June 2011.

12. **Competitiveness:** Competitiveness is seen as an important driver of change in the agriculture sector of the GMS. The competitiveness of food and agricultural products in global markets will be influenced not only by price, but biosafety, carbon neutrality, and genetic composition. In addition, chemical free production, using carbon neutral composting and Integrated Pest Management (IPM), including biological control will be linked to global competitiveness. It is likely that many consumers, particularly those in Europe and Japan, will continue to be hesitant to use genetically modified (GM) food and agricultural products. At the same time, global consumption of organic and natural products is expected to continue to increase. For agriculture in the GMS, this provides an opportunity to build on the sub-region's existing comparative advantage as a global source of natural products including non-timber forest products (NTFPs) and a rich genetic reservoir derived from significant healthy biological diversity.

13. **Productivity:** Linked to competitiveness are required increases in productivity and reduction in production costs required to adapt to climate change. Factors critical to increasing productivity will include adoption of technologies related to Good Agricultural Practices (GAP) and renewable rural energy (RRE); improved soils, land, and water management; pre- and post-harvest handling and household- and community-based value-added processing (drying, sorting, grading); organization of producer groups and associations to cluster (defragment) production; and, the education of not only farmers, but also traders, processors, and small- and medium-scale enterprises (SMEs) in price and quality stratification for food and agricultural products.

14. **Climate change:** Climate change also is expected to be a major driver of change, with critical implications for agricultural development in the GMS. GMS producers will be obligated to adjust to changed climatic conditions by implementing adaptation measures: measures that will of necessity not be detrimental to their competitiveness in domestic, regional, and global markets. To thrive, GMS agriculture can use the climate change situation as an opportunity to become more resilient, and thereby more sustainable. If appropriate agricultural economic and fiscal policy measures are implemented, GMS production could be increasingly identified as being pro-climate change agriculture.

## ASEAN-GAP

15. ASEAN-GAP<sup>9</sup> was developed by the ASEAN Secretariat (with member country representatives) and launched in 2006 as a standard for good agricultural practices during the production, harvesting and post-harvest handling of fresh fruits and vegetables in the ASEAN region. The purpose of ASEAN-GAP is to enhance the harmonization of national GAP programmes within the ASEAN region, fruit and vegetable safety for consumers, the sustainability of natural resources, and to facilitate regional and international trade of fruits and vegetables. The main requirements include:

- Food safety
- Environmental management
- Worker health, safety and welfare
- Produce quality

16. Since ASEAN-GAP aims to enhance harmonization of product standards and facilitate trade, opportunities exist for certified producers to increase exports of fresh fruits and vegetables to other ASEAN countries. For the less developed ASEAN countries an

---

<sup>9</sup> Liu, Pascal. A practical manual for producers and exporters from Asia: regulations, standards, and certification for agricultural exports. Trade and Markets Division, FAO, RAP Publication 2007/13. Rome: 2007.

opportunity exists to use ASEAN-GAP as a benchmark for developing national GAPs. ASEAN-GAP includes implementation guidelines and training materials as well as a code of recommended practices. Member countries can benchmark their country GAP programs against ASEAN-GAP to achieve harmonization.

17. The main constraint of ASEAN-GAP is that it only covers fresh fruits and vegetables. It does not cover products that present high risks to food safety such as fresh cuts. It is still a very new standard in a regional and international context. ASEAN-GAP is not a standard for certification of organic products or GMO-free products.